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Zhodnocení finanční výkonnosti vybrané společnosti v kosmetickém průmyslu

Evaluation of Financial Performance of Selected Company in Cosmetic Industry

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Declaration of Utilisation of Results from the Bachelor Thesis
List of Annexes
Annexes

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"I hereby declare that I have elaborate the entire thesis including annexes myself."

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Contents

1 Introduction

Nowadays, cosmetics is so important for each woman even man. Estée Lauder Companies, Inc. is one of the most famous cosmetics companies, whose products are deeply favored by consumers. Estée Lauder Companies, Inc., L'Oréal Group and P&G Group as the three biggest firms in this industry, in 2017 they made 13.683 million USD, 29.400 million USD and 12.400 million USD.

The goal of this bachelor thesis is to evalulate the financial situation of the Estée Lauder Companies, Inc during 2013 – 2017 period.

Financial analysis is based on accounting and statement data and other relevant information, using a series of specialized analytical techniques and methods, an economic management activity that analyses and evaluates the past and present financial activities, investment activities, operating activities, distribution activities, profitability, operating capacity, debt-paying capacity and growth capacity of enterprises and other economic organizations. It is for the investors, creditors, operators and other organizations or individuals concerned about the enterprise to understand the enterprise's past, evaluate the enterprise's current situation, predict the enterprise's future to make the correct decision-making to provide accurate information or basis.

There are five chapters in this thesis. Chapter 1 is the brief introduction of the whole thesis. Chapter 2 is a description of the financial analysis methodology used in this thesis. Chapter 3 is the introduction of the financial characteristics of Estée Lauder Companies, Inc. Chapter 4 is the result of financial analysis. And chapter 5 is the conclusion of the whole thesis.

In chapter 2, we will introduce the financial analysis methodology which will be used in the financial state of Estée Lauder Compaines, Inc.. In the beginning, we will use the three basic statements, which are balance sheet, income statement and cash flow statement. And based on these three statements, we can use the horizontal common-size analysis and vertical common-size analysis to make further analysis of the financial

state of Estée Lauder Compaines, Inc.. Next continuously based on the data of three financial statements, we can use some equations to calculate some financial ratios, which are some significant indicators of estimate the financial state of one company. In the end, based on the financial ratios, we use Dupont analysis to make further analysis.

In chapter 3, this part is presenting some information about Estée Lauder. The first part is the history of Estée Lauder Compaines, Inc., Inc. The secondary one is the structure of Estée Lauder. The next one is the marketing strategy of Estée Lauder Compaines, Inc., Inc. And the last one is some competitions in this cosmetics industry.

In chapter 4, we will use the methodology of chapter 2 to conduct the financial state of Estée Lauder Compaines, Inc., Inc. And the part is the most significant part of the whole paper, which will clearly show the financial state of Estée Lauder Compaines, Inc., Inc.by numbers or charts or figures.

In chapter 5, we will make a conclusion about the financial condition of Estée Lauder Companies, Inc. Under the result and data of chapter 4. And then make a summary for the whole thesis and give our suggestions for Estée Lauder Companies, Inc.

2 Description of the Financial Analysis Methodology

Financial analysis is the process of selecting, evaluation and interpreting financial data. The main aim of financial analysis is formulating the assessment of the company's present and future financial position. Why a firm needs financial analysis because it needs the analysis to make financial planning. Why an investor needs financial analysis because he needs the result to estimate the situation of the firm.

Financial analysis results evaluation has four characteristics: result evolution over time, result comparison with competition or industry statistics, comparison of true results with the plan and comparison with recommended values.

There are many methods of financial analysis. In this paper, we use financial statement analysis, common-size analysis, financial ratio analysis. In this chapter, the first part is financial statement analysis, we will introduce a balance sheet and income statement. The next one is common-size analysis, which includes two types: horizontal common-size analysis and vertical common-size analysis. The last one is financial ratio analysis and Dupont analysis.

2.1 Financial statement analysis

Financial statements are official records of the financial activities and positions of a business, individual, or other entity. In one financial statement, there are three basic parts:

(1) balance sheet, which reports on the firm's assets, equity and liabilities at a given point of time

(2) income statement, which presents the amount of profit generated by a company over a specific period of time

(3) cash flow statement, which explains the differences between the beginning and ending balance of cash of a company.

A financial statement is very important for everyone because, in some contents, the financial statement reflects the financial state of the company.

2.1.1 Balance sheet

The balance sheet is a summary of the financial balances of an individual or an organization. The balance sheet is a financial statement that shows the firm's assets and liabilities at a particular time. The balance sheet is often seen as "a snapshot of a company's financial condition".

In every balance sheet, there is a basic equation:

$$Totalassets = totalliabilities + totalowner'sequity \quad (2.1)$$

The balance sheet can be divided into two parts:

The left part is assets, which is made up of long-term assets (fixed assets, non-current assets) and current assets (short-term assets).

The right part is the owner's equity and liabilities, which contain the owner's equity and current(short-term) liabilities and long-term liabilities. And the amount of sum of each part is the same.

Table 2.1: The classified balance sheet format

ASSETS	**LIABILITIES and OWNER'S EQUITY**
Assets	**Liabilities**
Current assets	Current liabilities
Noncurrent assets	Long-term liabilities
Investment	**Owner's Equity**
Fixed assets	Contributed capital
Intangible assets	Retained earnings

Source: Accounting Simplified

As for the contents of this table, each content has its characteristics and some categorization. The left part of the balance sheet is assets, which are generated either by purchase (investing activities), business activities (operating activities) or financing activities. Current assets include short-term assets, relatively short life and high liquidity, which include account receivable (represents the money owed the firm by

individuals or other companies on the sale of products on credit), inventories (raw material, goods for sale, semi-finished product, etc.) and cash and cash equivalents (short-term tradeable securities). Long-term assets include long-term assets, relatively long life and lower liquidity, which contains tangible assets (equipment, land, buildings, etc.), intangible assets (trademark, patents, goodwill, etc.) and financial investments (investments in securities and assets of other firms, like shares, bonds).

The right part is the mix of capital for the financing of the company's assets. Owner's equity represents the shareholder's investment into the company, capital belonging to the owners or shareholders of the company, and contribution of the owners (buying shares) or by company's profit (retained earnings). Common and preferred shares, share premium (paid-in capital) and retained earnings are the owner's equity. Liabilities represent money (capital), that has been borrowed and must be repaid back at some predetermined date, which can be classified current liabilities and long-term liabilities. Current liabilities include borrowed money that must be paid back within 12 months. Accountable payables (credit extended by suppliers to a company when it purchases inventories), accrued expenses (short-term liabilities but not yet paid) and short-term notes (money borrowed from a bank payable within 12 months) belong to current liabilities. Long-term liabilities include money that has been borrowed for longer than 12 months, which included loans from the banks or issuers).

2.1.2 Income statement

The income statement is one of the financial statements of a company and shows the company's revenues and expenses during a particular period, which indicates the amount of profit generated by a company over a certain period and compares the company's revenues and company costs and expenses. Income statement focus on operating activities (calculated as a difference between the sum of operating revenues and operating costs and expenses) and financing activities (calculated as a difference between the sum of financing revenues and financing costs).

Basic equation underlying the income statement is:

$$revenues - costs\&expenses = net\ income(loss) \quad (2.2)$$

The following table is an income statement example of listed companies. We can know that the income statement focuses on the four key items- revenues, expenses, gains, and losses. But it doesn't contain receipt (the money received by operating activities) or cash payment (the money paid by operating activities). It starts with the details of selling, then calculates net income, finally calculates earnings per share (EPS).

In income statements, there are some items, which can easily be divided into two parts: revenues and gains and expenses and losses. Revenues and gains have three concepts: operating revenue, non-operating revenue, and gains. Operating revenue is the revenue realized through primary activities. For some manufacturing companies, the primary revenue is the revenue from selling these products. Non-operating revenue is the revenue realized through secondary, non-core business activities, which includes the revenue from bank interest and commercial property rental income. Gains are also called other revenue, which is the net money made from other activities, like the sale of long-term assets. Expenses and losses include the expense related to the primary activities, the expense related to secondary activities and losses. Expenses related to primary activities are all expenses incurred to obtain normal operating income associated with the company's primary activities, which include like costs of goods sold, sales, depreciation and research and development. The expenses related to the secondary activities are all expense associated with non-core business activities, like the interest paid on loans. Losses are all expenses that go towards the loss-making sale of long-term assets, one-time or other abnormal costs or litigation costs.

Table 2.2 example of income statement

Net sales
Costs of sales
Sales and general management fee
Depreciation
EBIT
Interest paid
Profit before tax
Tax
Net profit
Distribution of the net profit
Dividend
Increase in retained earnings

Source: *BREALEY, Richard A., Stewart C. MYERS a Alan J. MARCUS. Fundamentals of corporate finance. 7th ed.2.1.3 Cash flow statement*

Cash flow statement is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Cash flow statement explains the differences between the beginning and ending balance of cash of a company and summarize the information about cash inflows (sources of money) and cash outflows (how the money spent) during a particular period. There are the basic formulas of the cash flow statement:

$$Net\ cash\ flow = CF\ from\ operating\ activities + CF\ from\ investing\ activities + CF\ from\ financing\ activities \quad (2.3)$$

$$End\ balance\ of\ cash = beginging\ balance\ of\ cash + (-)\ net\ cash\ flow \quad (2.4)$$

Table 2.3 example cash flow statement

Cash flow from operating activities
Net sales
Non-cash fee
Depreciation and amortization
Changes in working capital
Decrease (increase) in accounts receivable
Decrease (increase) in inventory
Decrease (increase) in other current assets
Decrease (increase) in other current liabilities
Decrease (increase) in working capital
Cash flows from investing activities
Cash provided (used) for disposal (acquisition) of property, plant, and equipment
Sale (acquisition) of other investing activities
Investment Activities Provide (consume) cash
Cash flows from financing activities
Increase (decrease) in short-term debt
Increase (decrease) in long-term debt
Issue dividend
Net issue (repurchase) of shares
Others
Cash provided (expended) by financing activities
Net cash and cash equivalents steamers (decrease)

Source: *BREALEY, Richard A., Stewart C. MYERS a Alan J. MARCUS. Fundamentals of corporate finance. 7th ed.*

Cash flows statement contains three different activities. Cash flows from operating activities include all inflows and outflows associated with the day-to-day activities of a company (activities on a routine basis). Cash flows from operating activities are the first part of the cash flow statement, which begins with net income then checks all noncash items and cash items associated with operating activities. For example, account receivables are noncash accounts. If receivables rise during a period, which means sales rise, but there is no cash received when selling. The cash flow statement should reduce receivables from net income because it is not cash. The cash flows from the operating sector also include account receivables, depreciation, amortization, and numerous prepaid items booked as revenue or expenses but with no associated cash flows.

Cash flows from investing activities involve all inflows and outflows associated with purchasing and selling of long-term assets (tangible assets, intangible assets, and financial investments). Cash flows from investing activities are the second section of the cash flow statement, which includes property, factory buildings, and cash spent on equipment. The company can obtain some cash flow by selling equipment or property in this section.

The cash flow generated by financing activities involves all inflows and outflows of transactions between the company and its owners and creditors. The cash flow generated by financing activities is the last part of the cash flow statement and is used to describe the cash used in corporate financing activities. The analyst uses the cash flow from the financing activity to determine the amount the company pays through dividends or stock repurchases.

2.2 Common-size analysis

The common-size analysis is the analysis of financial statement data and its changes over time. The aim is to identify trends and major differences, including both horizontal common size analysis and vertical common-size analysis. Financial statements that show a common size use a common size financial statement to make it easier to analyze a company and compare it with peers. The use of universal-scale financial statements helps investors discover the potential benefits of the original financial statements. The main advantage of a common size analysis is that it allows vertical analysis by line item over a period of time, such as a quarterly or annual period, as well as from a horizontal perspective over a period of time. By the way, general-purpose sizing also provides insight into the different strategies' companies pursue. However, a common size analysis by itself is unlikely to provide a firm with comprehensive and clear conclusions.

2.2.1 Horizontal common-size analysis

The horizontal common-size analysis is an analysis of the evolution of financial

statement data over time or over a given period against which it is benchmarked. Horizontal common size analysis is used for Fundamental analysis to compare historical data, such as ratios or line items, over multiple accounting periods. The horizontal analysis can be done using either absolute or percentage comparisons, where the quantity for each subsequent period is expressed as a percentage of the mid-base year amount and the baseline amount is shown at 100 percent. This is also called a base year analysis.

The horizontal analysis enables investors and analysts to understand the factors that have driven corporate financial performance over the years, as well as to identify seasonal trends and growth patterns. It enables analysts to assess relative changes in different projects and make predictions about them. By looking at the income statement, balance sheet, and cash flow statement at the same time, you can create a complete picture of the operating results, what drives the company's performance, and whether it is operating and profitable effectively. The horizontal analysis also makes it easy to compare the growth rates and profitability of different companies.

The current period may look particularly good or bad, depending on the accounting period the analyst has started and the number of accounting periods chosen. For example, the profits in the current period may look good compared with the previous quarter, but in fact, they are quite poor compared with the results in the previous quarter. Therefore, a common problem in horizontal analysis is that the aggregation of financial statement information may change over time.

In the horizontal common-size analysis, there is a basic formula:

$$Dollar\ change = Amount\ of\ the\ iten\ in\ comparison\ year - Amount\ of\ the\ iten\ in\ base\ year \quad (2.5)$$

$$Percentage\ change = Dollar\ change\ Amount\ of\ the\ iten\ in\ base\ year \cdot 100 \quad (2.5)$$

2.2.2 Vertical common-size analysis

The vertical common-size analysis is an analysis of the changes in the selected

benchmark ratios (total income, total assets, total liabilities, etc.). The vertical common scale analysis is one of the Fundamental analysis, where each line item is listed as a percentage of the cardinality of the statement. Thus, an income statement item can be expressed as a percentage of total assets, while a balance sheet item can be expressed as a percentage and vertical analysis of total assets or liabilities, with cash flow statement showing the sum of each cash inflow Outflows as a percentage of cash inflows as a percentage of total cash inflows.

A vertical analysis makes it easier to compare the financial statements of two different companies because it can see the relative ratio of account balances. The vertical analysis also makes it easy to compare previous time-series analysis periods, where quarterly and annual data are compared over several years to see whether performance indicators are improving or deteriorating. In the vertical common-size analysis, there is a basic formula:

$$Percentage\ of\ base = \frac{Amount\ of\ individual\ item}{Amount\ of\ base} \cdot 100 \quad (2.6)$$

2.3 Financial ratio analysis

Financial Ratio Analysis is the assimilation of financial data and the form of property ratio. The financial position of a company is calculated according to the financial data, including the relationship. Financial ratio analysis is the Quantitative analysis of the information contained in a company's financial statements. Financial ratio analysis is used to assess all aspects of a company's operations and financial performance, such as profitability, liquidity, solvency, and activities. Financial Ratio Analysis is the cornerstone of Fundamental analysis.

Financial Ratios are the data used to assess the current and historical financial statements of a company's performance and financial position. The data retrieved from the reports are used to compare the performance of companies over time to assess whether they are improving or deteriorating, and to compare their financial position with the industry average; Or compare a company with one or more companies

operating in the industry to see how the company is preparing for capital.

2.3.1 Profitable ratios

Profitable ratios analyze the company's ability to generate profit from invested capital. They measure the ability to generate profit from invested capital in the form of return during a period. For most of these ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the company is doing well. And the higher the profitability ratios, the better competitive position of the company, which include operating profit margin (OPM), net profit margin (NPM), return on assets (ROA) and return on equity (ROE).

Operating profit margin (OPM)

OPM is an indicator of the degree to which a company manages its operations, for example, the degree to which revenue is generated and operating costs are controlled, as well as the operating profit per unit of revenue.

$$OPM = \frac{EBIT}{Receivable} \left(\text{or } \frac{Operating\ Profit}{Receivable}\right) \quad (2.7)$$

Net profit margin (NPM)

Net profit margin per unit of revenue (NPM) measure (percentage). The net profit margin indicates how much of each dollar of the company's revenue is converted into profit. Net profit margin is one of the most important indicators of a company's financial position. By tracking increases and decreases in their net profit margins, companies can assess the effectiveness of current practices and forecast profits based on revenue.

$$NPM = \frac{EAT}{Receivable} \quad (2.8)$$

Return on assets (ROA)

Return on assets (ROA) measures the percentage of net profit (or operating profit) per unit of a company's Assets The return on the ROA ratio is usually net profit or net income, that is, all costs, expenses, and after-tax sales. The more assets a company accumulates, the more sales and profits it can generate. Because economies of scale help to reduce costs and improve profit margins, returns can grow faster than assets and

can improve returns on assets.

$$ROA = \frac{EBIT}{Assets} \left(\text{or} \frac{Operating\ Profit}{Assets}\right) \quad (2.9)$$

Return on equity (ROE)

Return on equity (Roe) is a measure of the efficiency with which a company generates profits in shareholders' equity. ROE is the percentage of the company with the largest number of shareholders. Because it measures their return on equity. As companies increase the size of their assets and generate better returns with higher profits, shareholders can retain most of the growth in returns when the use of debt leads to the creation of additional assets.

$$ROE = \frac{EAT}{Equity} \quad (2.10)$$

2.3.2 Liquidity ratios

The liquidity ratio measures a company's ability to meet its immediate or short-term Liabilities and obligations, which compare the company's current assets (in the form of cash or a quick cash transfer) with its short-term liabilities and obligations. A liquidity ratio is a type of financial indicator used to determine the debtor's ability to service its current debt without increasing external capital. The liquidity ratio measures a company's ability to pay its debt and its margin of safety by calculating indicators. The liquidity ratio measures the availability of cash to pay down debt. There are three basic liquidity ratios: The current ratio, the quick ratio, and the cash ratio.

Current ratio

The liquidity ratio is a measure of a company's ability to pay its short-and long-term debt. To calculate the ratio, analysts compare current assets with current liabilities. It is generally considered acceptable to have a liquidity ratio that is slightly higher than the industry average. A liquidity ratio below the industry average may indicate a higher risk of distress or default. Similarly, if a company's liquidity ratio is very high compared to that of its peers, it indicates that management may not be using its assets effectively. If the result is less than 1, the company's debt is paid in a year or less and is greater than

its assets. In the industry group, a liquidity ratio below 1 is normal.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities} \quad (2.11)$$

Quick ratio

The quick ratio is a measure of a company's short-term liquidity condition, measuring a company's ability to use its most liquid assets to repay short-term debt. The fast rate is a more rigorous test of company liquidity. Usually, if the result is 1, we think this is a normal quick ratio, which means that the company has enough assets to liquidate immediately to repay its current liabilities. If the result is less than one, the company may not be able to repay the entire current liability; if the result is more than one, the company can immediately get rid of its current liabilities.

$$Quick\ Ratio = \frac{Current\ Assets - inventories}{Current\ Liabilities} \left(or\ \frac{cash + accounts\ receivables}{account\ liabilities}\right) \quad (2.12)$$

Cash ratio

The cash ratio is the ratio of a company's total cash and Cash Equivalents (CCE) to its current liabilities. This measure measures a company's ability to repay short-term debt. If the cash ratio of the company is equal to 1, the amount of the company's current liabilities is exactly the same as the cash and cash equivalents to pay off these liabilities.

If the company's cash ratio is below 1, the current liability is greater than the cash and cash equivalents. In this case, the cash on hand is not enough to cover the short-term debt. If the company's cash ratio is greater than 1, the company has more cash and cash equivalents than current liabilities.

$$Cash ratio = \frac{cash + marketable\ securities}{current\ liabilities} \quad (2.13)$$

2.2.3 Solvency(leverage) ratios

The repayment ability ratio measures the company's ability to perform long-term debt, sometimes referred to as the financial leverage ratio, which measures the company's financing method. The solvency ratio is an important indicator of a company's solvency and other debt capabilities. The lower the solvency ratio of a company, the stronger its profitability in default. There are three basic types of ratios:

debt ratio, debt-to-equity ratio, and interest coverage.

Debt ratio

The debt ratio is the percentage of a company's assets that are financed by debt. The higher the ratio, the higher the leverage. The leverage ratio shows how companies grow and acquire their assets over time. Investors use this ratio only to assess whether a company has enough capital to meet its current obligations and whether the company can pay its return on investment. Creditors use this ratio to see how much debt the company already owns and whether the company is able to repay the debt, which will determine whether to extend additional loans to the company.

$$Debtratio = \frac{total\,debt(total\,liabilities)}{total\ assets} \tag{2.14}$$

Debt-to-equity ratio

The debt-to-equity ratio is similar to the debt ratio, which is related to the amount of corporate debt relative to corporate equity. For example, if the debt-to-equity ratio is higher than 1, the company uses more debt for asset financing than equity. Given that the debt / Equity Ratio Measures the value of a company's debt relative to its net assets, it is usually used to measure the extent to which a company assumes debt as a means of using its assets. High debt / Equity Ratios are usually associated with high risk; this means that companies have been active in financing debt growth.

$$Debttoequityratio = \frac{total\,debt(total\,liabilities)}{equity} \tag{2.15}$$

Interest coverage

The interest guarantee indicates that the company's operating profit can meet the current interest payment. For example, if interest coverage is 5,20% of the company's operating profit is consumed by the interest paid. Essentially, interest coverage measures the number of times a company can pay current interest with its available revenue. In other words, it measures the safe margin at which a company pays interest over a given period of time. The company survives any financial hardship that may arise in the future, perhaps unforeseeable.

$$Interest coverage = \frac{EBIT}{Interest\ paid} \left(or\ \frac{Operating profit}{Interest\ paid}\right) \quad (2.16)$$

2.3.4 Assets management(activity) ratios

Asset Management Ratios measure the extent to which a company uses its assets, indicating the amount of money invested in a particular asset relative to the income generated by the asset. Activity ratios measure the effectiveness of a company's use of resources. The activity ratio measures a company's relative efficiency based on its use of assets, leverage, or other similar balance sheet items. And it's important to determine whether a company's management is doing enough to generate revenue and cash from its resources. In addition, the use of asset efficiency has a direct impact on liquidity. Average collection period (ACP), receivable turnover (ART), inventory turnover (IT) and total asset turnover (TAT) are included in the asset management ratio.

Average collection period (ACP)

Average collection period (ACP) measures the conversion of accounts receivable into cash. The average collection period is the amount of time it takes an enterprise to receive its outstanding accounts receivable. The average collection period represents the average number of days between the credit sales date and the credit sales date of receipt of payment.

$$ACP = \frac{Accounts receivable}{Revenures} \cdot 360 \quad (2.17)$$

Accounts receivable turnover (ART)

Accounts receivable turnover (ART) shows the number of times accounts receivable "roll" over the course of a year. Receivable turnover is an accounting indicator used to quantify the effectiveness of a company in providing credit and in collecting that credit. The turnover rate of accounts receivable is an activity rate that measures the efficiency of a company in using its assets.

$$ART = \frac{Revenues}{Accounts\ receivable} \quad (2.18)$$

Inventory turnover (IT)

Inventory Turnover (IT) is a measure of the number of times inventory is sold or

used over a period of one year. Inventory turnover is the ratio that shows the number of times a company sells and changes inventory over a given period of time. The company can then divide the number of days in that period by the inventory turnover formula to calculate the number of days needed to sell inventory. Calculating inventory turnover helps companies make better decisions about pricing, manufacturing, marketing and purchasing new inventory.

$$IT = \frac{cost\ of\ goods\ sold}{averaged\ inventory} \tag{2.19}$$

Total assets turnover (TAT)

Total Asset Turnover (TAT) is an efficiency ratio that shows how successful companies are in using their assets to generate revenue. Asset turnover measures the value of a company's sales or revenue relative to the value of its assets. For example, TAT is 1.5, which means that every unit invested in an asset generates 1.5 revenue. The higher the asset turnover rate, the better the performance of the company, because the higher the ratio means that the company generates more revenue per dollar of assets.

$$TAT = \frac{Revenues}{total\ assets} \tag{2.20}$$

2.3.5 Dupont analysis

Dupont analysis, a measure of DuPont's performance in the 1920s, has been used ever since. Under this measure, assets are valued on their total book value rather than their net book value in order to achieve a higher return on investment. Dupont analysis is a basic example of pyramid decomposition, which can analyze the factors that drive the value of a financial ratio (for example, which factors influence its value or evolution). The principle is that the selected ratio is expressed as the product of the constituent ratio. What we call Dupont analysis is the decomposition of Roe Ratios by three component ratios. The following is the basic formula for Dupont analysis:

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{Revenues} \cdot \frac{Revenues}{Total\ assets} \cdot \frac{Total assets}{Equity} \tag{2.21}$$

$$EAT/Revenues = Net\ Profit\ Margin$$

$$Revenues \diagup Total\ assets = Assets\ turnove$$

$$Total\ assets \diagup Equity = Financial\ leverage$$

Because of the existing of these formulas, we can get this formula.

$$ROE = \frac{EAT}{Equity} = NPM \cdot Assets\ turnover \cdot Financial\ leverage \quad (2.22)$$

If we want to separate the effects of taxes and interest, we can decompose the profit margin as follows:

$$NPM = \frac{EAT}{Revenues} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Revenues} \quad (2.23)$$

$$EAT \diagup EBT = Tax\ burden$$

$$EBT \diagup EBIT = Interest\ burden$$

$$EBIT \diagup Revenues = Operating\ Profit\ Margin$$

After substitution into Dupont analysis, we get,

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{EBT} \cdot \frac{EBT}{EBIT} \cdot \frac{EBIT}{Revenues} \cdot \frac{Revenues}{Totalaasets} \cdot \frac{Totalassets}{Equity} \quad (2.24)$$

Simplify this formula, we get,

$$ROE = Tax\ burden \cdot Interest\ burden \cdot OPM \cdot Assets turnover \cdot Financial leverage \quad (2.25)$$

Influence quantification enables to analyze indicators, whose change has caused a change in the basic ratio. Following, we introduce the four methods of quantification of influence.

Methods of gradual changes work with absolute changes in component ratios, in the case of decomposition with three component ratios:

$$\Delta x_{a_1} = \Delta a_1 \cdot a_{2,0} \cdot a_{3,0} \quad (2.26)$$

$$\Delta x_{a_2} = a_{1,1} \cdot \Delta a_2 \cdot a_{3,0}$$

$$\Delta x_{a_3} = a_{1,1} \cdot a_{2,1} \cdot \Delta a_3$$

Where x is a basic ratio, Δx is absolute change in the basic ratio, and there are two component ratios: Δa is an absolute change in the component ratio, Δx_{a_1} is an absolute change in the basic ratio caused by the change in the first (a_1) component ratio.

Logarithmic decomposition method is easier than methods of gradual change because there is only one formula used. The impact of the i-th component ration on the change in the basic ratio is calculated as follows:

$$\Delta x_{a_i} = \frac{lnI_{a_i}}{lnI_x} \cdot \Delta x \qquad (2.28)$$

Where x is a basic ratio, $\Delta x$is absolute change in the basic ratio, $I_x = \frac{x_1}{x_0}$ is the index of change in the basic ratio, $I_a = \frac{a_{i,1}}{a_{i,0}}$ is the index of change in component ratio.

Functional decomposition method works with the relative changes in basic and component ratios. This method is applicable regardless of the signs of the relative changes:

$$\Delta x^{relat} = R_x = \frac{x_1 - x_0}{x_0} \qquad (2.29)$$

$$\Delta_i a^{relat} = R_{a_i} = \frac{a_1 - a_0}{a_0} \qquad (2.30)$$

Impact on the i-th component ratio on the basic ratio (in the case of three component ratios)

$$\Delta x_{a_1} = \frac{1}{R_x} \cdot R_{a_1} \cdot \left(1 + \frac{1}{2} \cdot R_{a_2} + \frac{1}{2} \cdot R_{a_3} + \frac{1}{3} \cdot R_{a_2} \cdot R_{a_3}\right) \cdot \Delta x \qquad (2.27)$$

$$\Delta x_{a_2} = \frac{1}{R_x} \cdot R_{a_2} \cdot \left(1 + \frac{1}{2} \cdot R_{a_1} + \frac{1}{2} \cdot R_{a_3} + \frac{1}{3} \cdot R_{a_1} \cdot R_{a_3}\right) \cdot \Delta x$$

$$\Delta x_{a_3} = \frac{1}{R_x} \cdot R_{a_3} \cdot \left(1 + \frac{1}{2} \cdot R_{a_1} + \frac{1}{2} \cdot R_{a_2} + \frac{1}{3} \cdot R_{a_1} \cdot R_{a_2}\right) \cdot \Delta x$$

Integral decomposition method is the easiest method of these methods of influence quantification. The procedure of integral decomposition method is similar as in the case of the functional method. In the case of decomposition with three component ratios:

$$\Delta x_{a1} = \frac{R_{a1}}{R_{x^*}} \cdot \Delta x \qquad (2.28)$$

$$\Delta x_{a2} = \frac{R_{a2}}{R_{x^*}} \cdot \Delta x$$

$$\Delta x_{a3} = \frac{R_{a3}}{R_{x^*}} \cdot \Delta x$$

$$R_{x^*} = \sum_{j=1}^{N} R_{a_j} \qquad (2.33)$$

Generally, the influence of the j-th component ratio is given as:

$$\Delta x_{a_j} = \frac{R_{a_j}}{R_{x*}} \cdot \Delta x \quad (2.34)$$

3 Characteristic of Selected Company in Cosmetic Industry

L'Oréal, Procter & Gamble and Estée Lauder are three global largest cosmetics groups. Estée Lauder Companies, Inc. is an American manufacturer and marketer of care skin, cosmetics, fragrance and hair care products. Like so many western country companies' name, Estée Lauder Companies, Inc uses its founder's name.

Estée Lauder Companies, Inc includes so many brands. Cosmetics brands have M.A.C, BECCA, TOM FORD Beauty, Bobbi Brown, Too Faced and so on. Skincare brands have La Mer, Glamglow, Clinique, Origins, Estée Lauder and Lab Series (for men). Fragrance brands have Le Labo, Jo Malone London, AERIN. Hair care brands have Aveda and Bumble and Bumble

In this chapter, we will describe basic information about Estée Lauder Companies, Inc and introduce the financial characteristics of it.

3.1 The history of Estée Lauder Companies, Inc

Estée Lauder and Joseph Lauder founded Estée Lauder Cosmetics in 1946. Estée started her beauty line with four products which included the famous face cream. Next year, this company got the first order for one depart store. In 1953, the company's first important product came out, which is Estoderme Youth-Dew Cream and captured the heart of Harper's Bazaar' s editor-in-chief. Then Estée Lauder expanded the line of Estoderme included cream, lotion, powder, bath oil and perfume. Because of the success of this line, it makes Estée Lauder from a flourishing cosmetic company begin its transformation to a multi-million-dollar business. In 1956, one luxury skincare category Re-Nutriv came out, which combines 25 kinds of the global most precious ingredients and priced in 115 dollars per jar. And this cream becomes the famous

product of Estée Lauder.

In the 1960s, Estée Lauder ushered its key growth period. In 1960, Estée Lauder had its first overseas account in Harrods, which is the finest store in London. This thing makes the UK become a core market. In 1962, Estée Lauder launched its first makeup collection, which is named the Estée Lauder Mad Men® collection. In 1963, Estée Lauder launched a brand-new brand – Aramis, which the first men's grooming products for men's fragrance and treatment. In 1965, it decided to expend the model of manufacture, the first factory established in Melville, New York, the same year the first overseas factory also was broken ground in Oevel, Belgium. In 1966, the second overseas facility, Whiteman Labs, was built in Hampshire, England. In 1968, another skincare brand Clinique came out, which is a 100% fragrance-free collection of cosmetics products. In 1969, the company moved into a more prestigious headquarters, which located in GM Building at 767 Fifth Avenue, and now it is still the global headquarters to the company.

In 1970, Karen Graham became the first person to represent Estée Lauder. In the 1970s, the company focused the point on fragrance and the color of Platte. In 1977, Mrs. Estée Lauder received the French Legion of Honor, which is a significant point of her life. In 1979, Prescriptives was launched, which focuses the scientific precision and custom blending of the skincare and cosmetics products.

In 1982, Estée Lauder came out the Night Repair, which becomes one of the famous products of Estée Lauder. In 1986, with the help of scientist, researchers and skincare experts, Aramis' Lab Series Skincare for Men came out. In 1988 and 1989, Estée Lauder opened the store in Moscow and Budapest. 1989 was a momentous year for the Estée Lauder Company. Estée Lauder was listed in the Wall Street Journal of business influencer of the century.

In 1990, William Lauder who is the grandson of Estée Lauder launched Origins which advocates the concept of healthy and natural skincare. And with Origins, Estée Lauder Company founded a freestanding store in Cambridge, Massachusetts, which is

the first one in the United States. In 1993, Estée Lauder and Clinique entered the Chinese market and the counters have been set up at the Isetan department store in Shanghai. In the 1990s, Estée Lauder has won the rights to distribute perfume for many fashion brands, like Tommy Hilfiger, Kiton and DKNY. In 1994, Estée Lauder bought a majority interest of M.A.C Cosmetics and all acquired in 1998, which becomes an important part of cosmetics of Estée Lauder. And M.A.C has become one of the most sought-after cosmetics for women today. In 1995, the Estée Lauder Company went public on the New York Stock Exchange on November 17, at $26.00 a share ($6.50 post-split). Since 1995, brand acquisitions have been a major business for Estée Lauder Companies. In 1995, the company acquired Bobbi Brown Cosmetics, which is famous by creating makeup which enhances natural beauty. The luxury brand La Mer is also acquired by Estée Lauder Company, which is famous by the magic repair cream. In 1996, the websites of Bobbi Brown and Clinique went online. And in 1997, Aveda was acquired by Estée Lauder Company, which becomes the first haircare and holistic beauty brand of Estée Lauder Company. Jo Malone London was acquired in 1999, which is a famous British style fragrance brand.

In 2000, Estée Lauder Company decided to expand the portfolio. From 2000, the company started to buy the majority interest of Bumble and Bumble, and in 2006 completely acquired. In 2003, the company took over Michael Kors' perfume business. In the same year, Darphin was acquired by Estée Lauder Company. However, in 2004 Mrs. Estée Lauder passed by. In 2005, famous designer Tom Ford changed the classic Youth-Dew and made Tom Ford Beauty become a part of Estée Lauder. After 5 years, in 2010, a famous Hollywood makeup Smashbox was acquired by Estée Lauder. And in the same year, the company got the high-end fragrance license, Ermenegildo Zegna was acquired and Tory Burch was acquired in 2013. In 2012, the company exceeded 10 billion dollars in the net sale for the first time, which is a revenue milestone definitely. In the same year, Aerin Lauder who is the granddaughter of Estée and Joseph Lauder launched her eponymous perfume brand, AERIN Beauty. From 2014, Estée Lauder

Company started to acquire some bold brands from creative entrepreneurs, like RODIN, Le Labo, GLAMGLOW and Mille. In 2016, Kilian, BECCA and Too Faced were acquired by Estée Lauder Company.

3.2 The structure of Estée Lauder Companies, Inc

The management of Estée Lauder Companies, Inc can be divided into executive leadership and the board of directors. For the part of leadership, Estée Lauder Companies, Inc is a very traditional family business, most of the executive officers are the member of the Lauder family. The three leading chairmen are all members of the Lauder family. The current executive chairman is William P. Lauder, the son of Leonard and Evelyn Lauder and the grandson of Joseph and Estée Lauder. And now there are 19 executive officers to charge the executive business, and there are 5 family members in executive leadership.

For the board of directors, there are 16 members, who deal with the different parts of the company. There are five people are the employees of Estée Lauder Company, and two of them work in Clinique. The other people work for other companies, and eight of them are the CEO or the chairmen of their companies, and the other three of them are also in the upper echelons of the companies.

The Estée Lauder Companies operates in over 150 countries and territories and three main geographic regions: Asia/Pacific; Europe, the Middle East & Africa; and The Americas. Each region is composed of one or more affiliates. Today they have affiliates in 40+ countries and territories. Otherwise, Estée Lauder Companies, Inc. has 23 manufacturing and/or distribution spots in the world.

The EMEA (EUROPE, THE MIDDLE EAST & AFRICA) region contributes the highest percentage of Estée Lauder Companies' operating income. The Americans is the company's second largest region in terms of sales.And Asia/Pacific is the company's fastest-growing region.

3.3 The strategy of Estée Lauder Companies, Inc

Mrs. Estée Lauder used four marketing strategies for her own business:

1. Directly connect with your customers, where you can directly get the customers' ideas about products.
2. "Gift with purchase", which remotes customers to buy more products, like spending on member days and VIP's birthday
3. Free sample with every purchase, which gives customers a chance to try more products and find new products which meet their needs.
4. Savvy sampling, where Mrs. Estée Lauder offered a personally selected product in her "Beauty by month" club.

Clinique's daily routine also includes the marketing strategy of Estée Lauder. And Clinique came up the famous 3-steps skincare routine, skincare twice per day and use different skin care product to match different skin types in 1968.3-steps skincare routine makes customers buy the cleansers, toners, and moisturizers. Skincare twice per day makes the frequency of using product increase than before. The five different skin type needs different kinds of products makes more customers to buy the different products of one brand. This so-called 3-step skincare routine invisibly increases the customers' spending.

Estée Lauder's four marketing strategies and Clinique's daily routine become the basic marketing of cosmetics industry.

3.4 Competition

Estée Lauder company as the third biggest cosmetics company in the world, there are some challenges and competitions. For the famous Night Repair essence, there is ADVANCED GÉNIFIQUE of Lancôme as the competition of it. And there are so many examples can be described. The three largest cosmetics company all have the luxury or top brand to compete. For L'Oréal group, Helena Rubinstein is the luxury brand; for P&G, SK-II is the top brand of it. The top brand of Estée Lauder Company is La Mer,

so they are competitors for the top even luxury cosmetics industry. In addition to these brands, Guerlain of LVMH Group, Sisley, La Prairie, Clé de peau Beauté of Shiseido Company and so many brands are the competitors of the luxury skincare industry.

In the first-class cosmetics, Lancôme of L'Oréal S.A., Shiseido of Shiseido Company and Estée Lauder of Estée Lauder Company are the big three of this class, and there are some brands are also included, like Giorgio Armani, Givenchy, and Chanel.

In the secondary-class, Bioherm and Kiehl's of L'Oréal S.A., Ipsa of Shishido company, Origins and Clinique of Estée Lauder are the giants of this class.

In hair care products, Estée Lauder Companies, only have two brands but they are not so cheap to afford. However, in other cosmetics companies, hair care products are also an important part. L'Oréal and Kérastase are hair-care brands of L'Oréal, Head & Shoulder's, Pantene and Aussie are hair-care brands of P&G, Ryo, and Fresh-pop of AmorePacific.

Expects these competitions, there are so many competitions of different aspects. In the cosmetics industry, not only these three giants, like Shiseido Company from Japan, Amore Pacific Company from South Korea, LVMH from France, Chanel from Chanel Company and other cosmetics company are all the competitors of Estée Lauder Company.

4 Evaluation of Financial Performance of Selected Company in Cosmetic Industry

In this chapter, we will apply these financial analysis methods which are mentioned in chapter two. We use Estée Lauder's annual data from 2013 to 2017 for analysis. The following content includes common-size analysis, financial ratio analysis, and Dupont analysis.

4.1 Common-size analysis

The common-size analysis can show us the changes over the years from two different dimensions. The horizontal analysis focuses on the number of changes over the years, but the vertical analysis focuses on the structure changes over the years. From these two analysis methods, we can simulate its future development trend.

4.1.1 Common-size analysis of balance sheet

As we all know, the balance sheet is the fundament of the financial situation of one company. In this chapter, we will use two kinds of common-size analysis to analyze the current assets, non-current assets, total assets and liabilities, and equity. And the horizontal analysis of current assets is showed in Table 4.1.

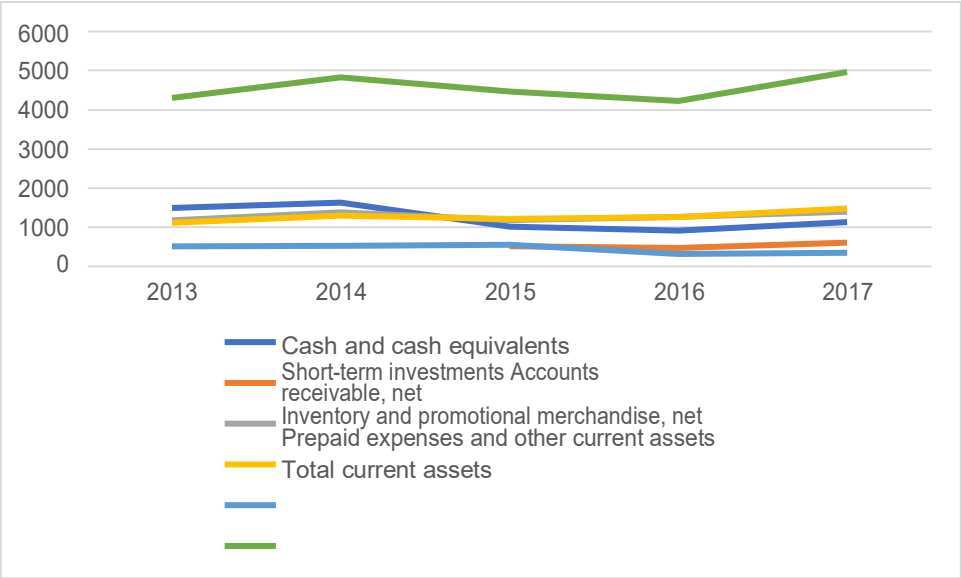
Table 4.1 Horizontal Analysis of Current Assets (in million, USD)

	2013	2014	2015	2016	2017
Cash and cash equivalent	1495.7	1629.1	1021.4	914	1136
Short-term investments			503.7	469	605
Account receivable, net	1171.1	1379.3	1174.5	1258	1395
Inventory and promotional merchandise, net	1113.9	1294	1215.8	1264	1479
Prepaid expenses and other current assets	515.9	522.8	553.1	320	349
Total current assets	1350.7	1502.6	1490.2	1583	1671

Source: Own calculation

The figure of how current assets changes is showed in Figure 4.1.

Figure 4.1 Horizontal Analysis of Current Assets



Source: Own calculation

We can see from table 4.1 and figure 4.1, we can know that the amount of cash and cash equivalent is from 2013 to 2014 is increasing, but in 2015 and 2016 is decreasing and in 2017 is increasing again. As for the short -term investments, from 2015 to 2017 the amount of it is continuously increasing. For net account receivable, in general, it is showing an upward trend, but it had only declined in 2015. for inventory and

promotional merchandise is showing an upward trend, but it was a slight decline in 2015 and it was a slight improvement in 2016 which didn't return to the level in 2014; it has seen a large increase in 2017. The last one is prepaid expenses and other current assets, from 2013 to 2015 it was increasing, but in 2016 decreased, although in 2017 it increased, it didn't increase a lot. Combining these five parts, we can see the changes in current assets during these five years.

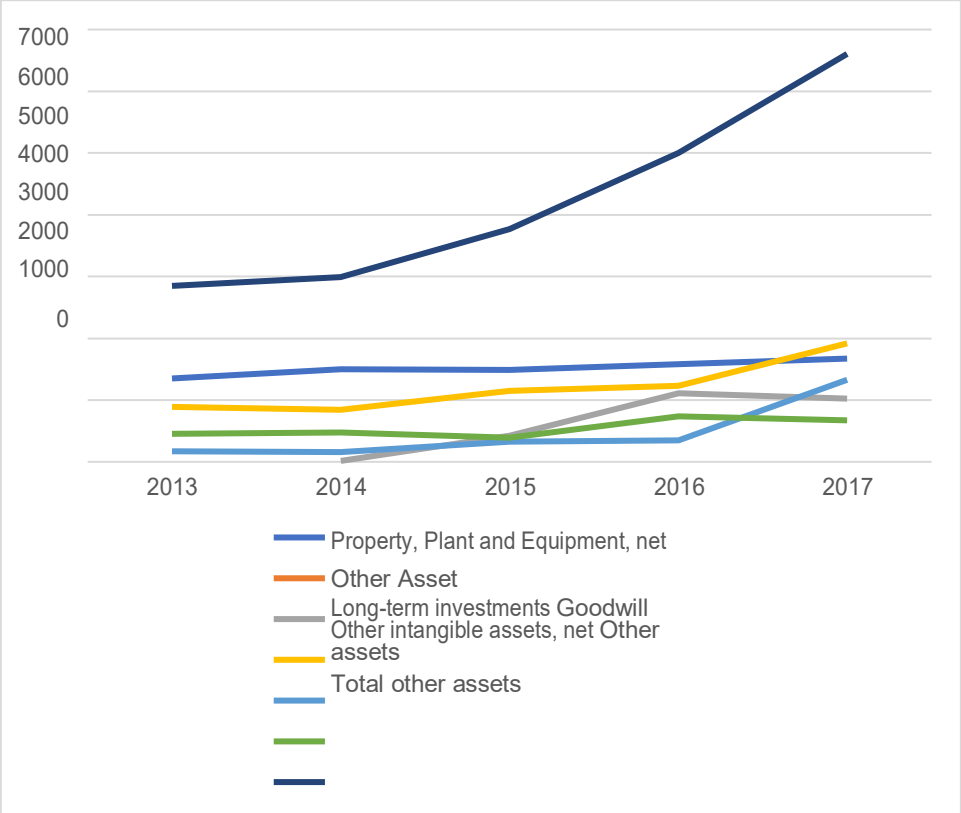
Table 4.2 Horizontal Analysis of Other Assets (in million, USD)

	2013	**2014**	**2015**	**2016**	**2017**
Property, Plant and Equipment, net	1350.7	1502.6	1490.2	1583	1671
Other Asset					
Long-term investments		13.6	420.3	1108	1026
Goodwill	881.5	839.2	1144.8	1228	1916
Other intangible assets, net	169.6	157.3	326.6	344	1327
Other assets	446.2	476.9	388.8	735	664
Total other assets	2848	2989.6	3770.7	4998	6604

Source: Own calculation

Table 4.2 is the table of horizontal analysis of other assets. The figure of how other assets changes is showed in Figure 4.2.

Figure 4.2 Horizontal Analysis of Other Assets



Source: Own calculation

According to table 4.2 and figure 4.2, the property, plant, and equipment are increasing during these five years. Long-term investment is also increasing during these five years. For goodwill, it presents an upward trend, but it decreased in 2014. Other intangible assets(net) is also increasing continuously from 2013 to 2017. Compared to the other four parts, other assets is the most turbulent, from 2013 to 2014 is increasing, but in 2015 it decreased and in 2016 it increased a lot, in 2017 it decreased again. However, total other assets are increasing continuously from 2013 to 2017.

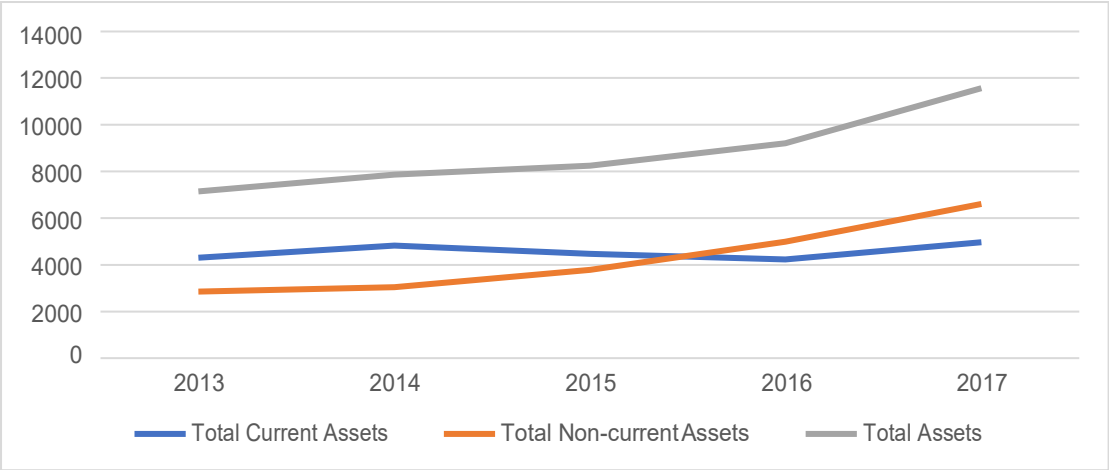
Table 4.3 Horizontal Analysis of Assets (in million, USD)

	2013	**2014**	**2015**	**2016**	**2017**
Total Current Assets	4297.2	4825.2	4468.5	4225	4964
Total Non-current Assets	2848	3043.6	3770.7	4998	6604
Total Assets	7145.2	7868.8	8239.2	9223	11568

Source: Own calculation

Table 4.3 is the table of Horizontal Analysis of Assets. The figure for how assets changes are showed in Figure 4.3.

Figure 4.3 Horizontal Analysis of Assets



Source: Own calculation

According to table 4.3 and figure 4.3, from 2013 to 2017, total non-current assets and total assets are always increasing. Total current assets are increasing in general, but they decreased in 2015 and 2016.

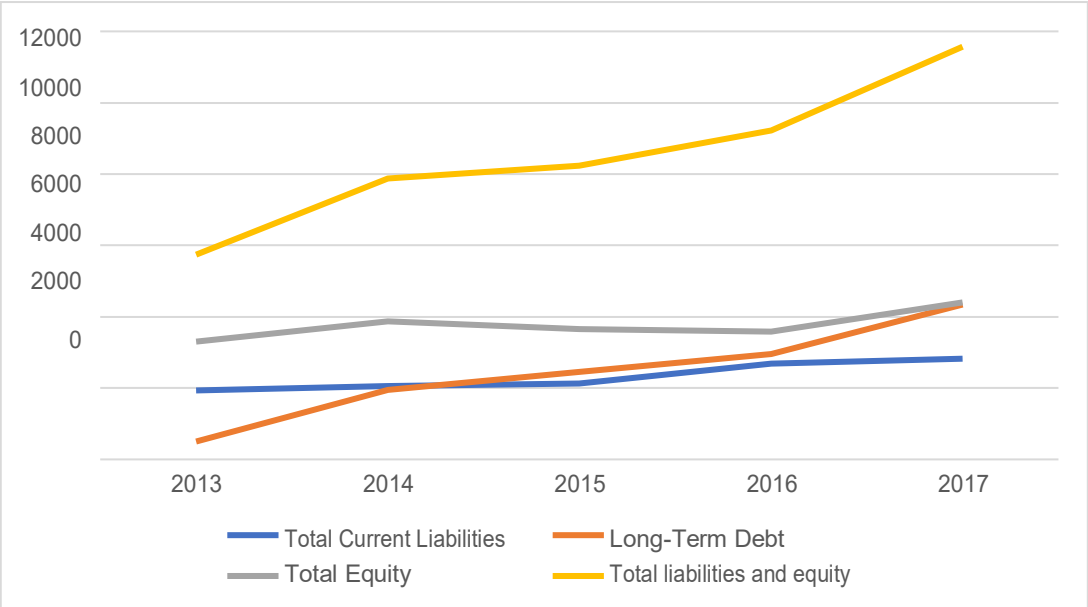
Table 4.4 Horizontal Analysis of Liabilities and Equity (in million, USD)

	2013	**2014**	**2015**	**2016**	**2017**
Total Current Liabilities	1934.6	2056.7	2135.6	2681	2823
Long-Term Debt	502.1	1942.7	2449.3	2955	4343
Total Equity	3301.9	3869.4	3654.3	3587	4402
Total liabilities and equity	5738.6	7868.8	8239.2	9223	11568

Source: Own calculation

Table 4.4 is the table of Horizontal Analysis of Liabilities and Equity. The figure of how liabilities and equity is showed in Figure 4.4.

Figure 4.4 Horizontal Analysis of Liabilities and Equity



Source: Own calculation

We can see from table 4.4 and figure 4.4, total current liabilities, long-term debt, and total liabilities are continuously increasing from 2013 to 2017. Total equity is increasing in general but it decreased in 2014 and 2015.

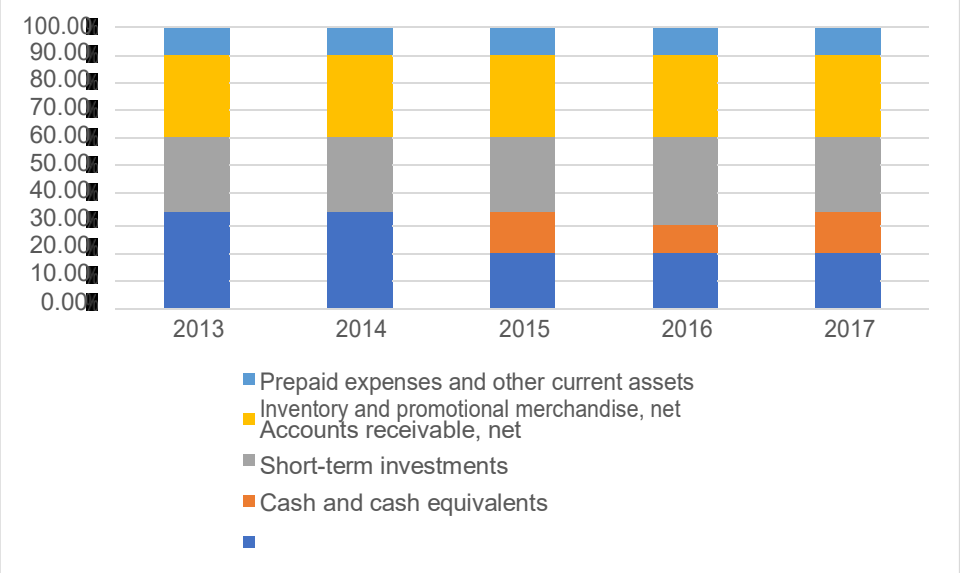
Table 4.5 Vertical Analysis of Current Assets (in percentage)

	2013	2014	2015	2016	2017
Cash and cash equivalents	34.81%	33.76%	22.86%	21.63%	22.88%
Short-term investments	0.00%	0.00%	11.27%	11.10%	12.19%
Accounts receivable, net	27.27%	28.59%	26.28%	29.78%	28.10%
Inventory and promotional merchandise, net	25.92%	26.82%	27.21%	29.92%	29.79%
Prepaid expenses and other current assets	12.01%	10.83%	12.38%	7.57%	7.03%
Total current assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.5 is the table of Vertical Analysis of Current Assets. The figure of Vertical Analysis of Current Assets is shown in Figure 4.5.

Figure 4.5 Vertical Analysis of Current Assets



Source: Own calculation

From table 4.5 and figure 4.5, we know the structure of current assets changed a lot in five years. Inventory and promotional merchandise took the biggest proportion of current assets, which was increasing from 2013 to 2017. Net accounts receivables took secondary biggest proportion, but it was floating, which can be seen from table 4.5., and it increased in one year but next year it decreased. Cash and cash equivalent took third biggest proportion, the situation of it seems like net account receivables, which was also floating. The next one is a short-term investment, it took a fourth proportion of current assets, but the proportion continued to increase over the years. The last one is a prepaid expense and other current assets, which took the smallest part of current assets, and it continued to decrease over the years.

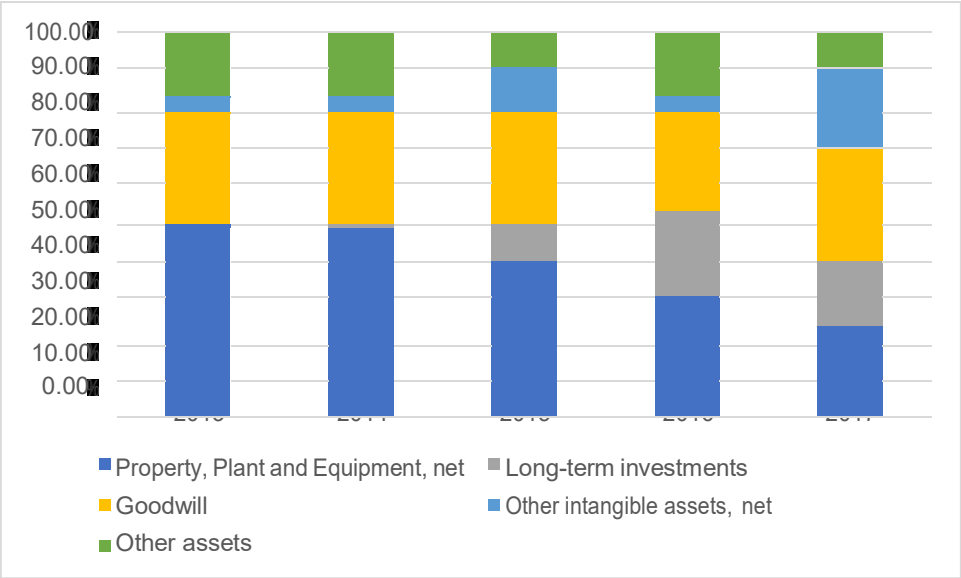
Table 4.6 Vertical Analysis of Other Assets (in percentage)

	2013	**2014**	**2015**	**2016**	**2017**
Property, Plant and Equipment, net	47.43%	50.26%	39.52%	31.67%	25.30%
Other Asset					
Long-term investments	0.00%	0.45%	11.15%	22.17%	15.54%
Goodwill	30.95%	28.07%	30.36%	24.57%	29.01%
Other intangible assets, net	5.96%	5.26%	8.66%	6.88%	20.09%
Other assets	15.67%	15.95%	10.31%	14.71%	10.05%
Total other assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.6 is the table of Vertical Analysis of Other Assets. The figure of Vertical Analysis of Other Assets is shown in Figure 4.6.

Figure 4.6 Vertical Analysis of Other Assets



Source: Own calculation

From table 4.6 and figure 4.6, we can see clearly that property, plant and equipment and goodwill occupied the two largest parts. Property, plant, and equipment took the largest part from 2013 to 2015, but in 2016 goodwill became the biggest component. Other intangible assets increased so fast that it took the third biggest part instead of long-term investment in 2017. The proportion of Long-term investment also increased, but it decreased in 2017, which made it become the fourth biggest part. Other assets showed a decreasing trend, which made it become the smallest part.

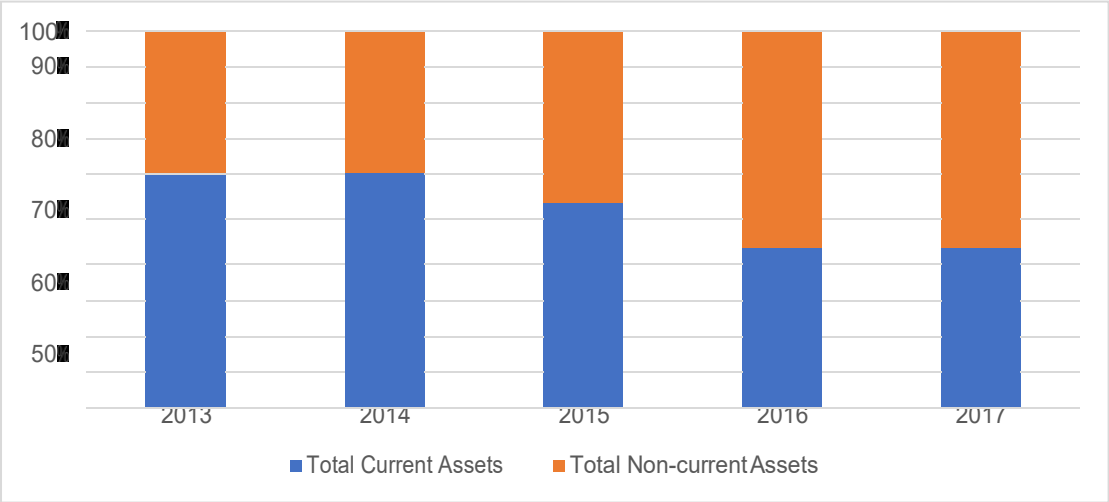
Table 4.7 Vertical Analysis of Assets (in percentage)

	2013	2014	2015	2016	2017
Total Current Assets	60.14%	61.32%	54.23%	45.81%	42.91%
Total Non-current Assets	39.86%	38.68%	45.77%	54.19%	57.09%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.7 is the table of Vertical Analysis of r Assets. The figure of Vertical Analysis of Assets is shown in Figure 4.7.

Figure 4.7 Vertical Analysis of Assets



Source: Own calculation

From table 4.7 and figure 4.7, we can see that the proportion of current assets is continuously decreasing, but the proportion of non-current assets is continuously increasing. And in 2017, the ratio of current assets to non-current assets is four to six.

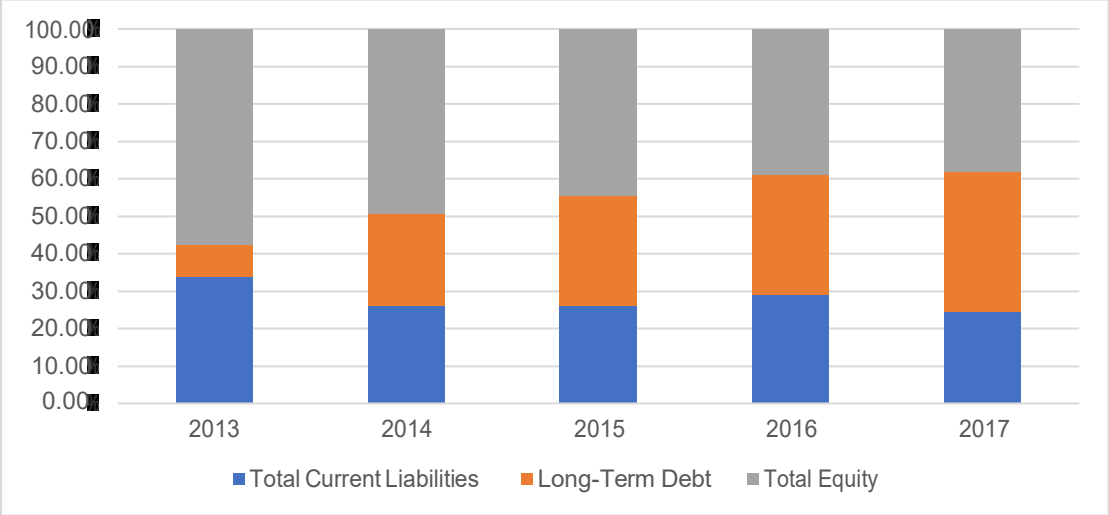
Table 4.8 Vertical Analysis of Liabilities and Equity (in percentage)

	2013	**2014**	**2015**	**2016**	**2017**
Total Current Liabilities	33.71%	26.14%	25.92%	29.07%	24.40%
Long-Term Debt	8.75%	24.69%	29.73%	32.04%	37.54%
Total Equity	57.54%	49.17%	44.35%	38.89%	38.05%
Total equity and liabilities	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.8 is the table of Vertical Analysis of Total Liabilities and Equity. The figure of Vertical Analysis of Total Liabilities and Equity is shown in Figure 4.8.

Figure 4.8 Vertical Analysis of Total Liabilities and Equity



Source: Own calculation

From table 4.8 and figure 4.8, we can see that the proportion of long-term debt is continuously increasing, the proportion of total equity is continuously decreasing, but the proportion of current liabilities is floating. The proportion of long-term debt is very similar to the proportion of total equity in 2017.

4.1.2 Common-size analysis of the income statement

In this chapter, we will use common-size analysis to analyze Total Revenue, Total Costs, and Expenses and whole income statement.

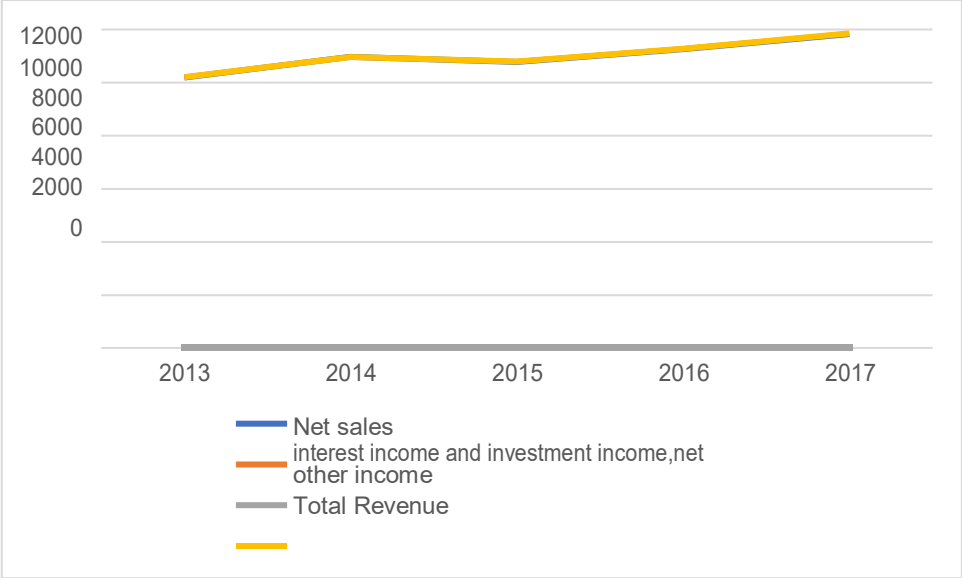
Table 4.9 Horizontal analysis of Total Revenue (in million, USD)

	2013	2014	2015	2016	2017
Net sales	10,181.70	10,968.80	10,780.00	11,262.00	11,824.00
interest income and investment income,net	0	0	15	16	28
other income	23.1	0	0	0	0
Total Revenue	10,204.80	10,968.80	10,795.00	11,278.00	11,852.00

Source: Own calculation

Table 4.9 is the table of Horizontal Analysis of Total Revenue. The figure of Horizontal Analysis of Total Revenue is shown in Figure 4.9.

Figure 4.9 Horizontal Analysis of Total Revenue



Source: Own calculation

We can see from table 4.9 and figure 4.9, the amount of net sales is increasing during this period. Because of the amount of net sales is so huge for other contents, the amount of other content is so tiny. The proportion of Interest income and investment income is increasing, which helps the increase in total revenue. Although other income disappeared from 2014, which makes no difference for the total revenue.

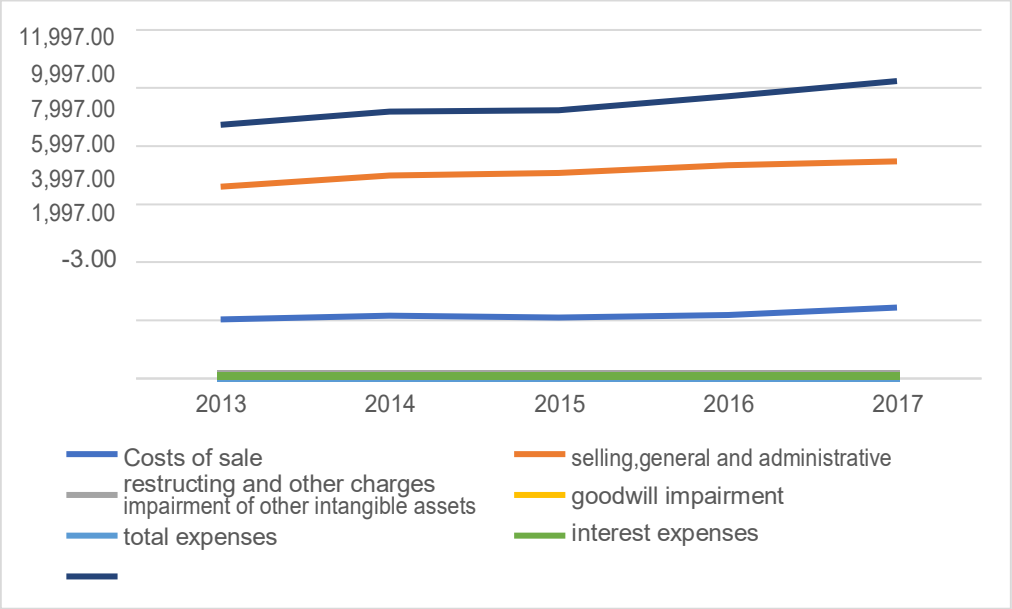
Table 4.10 Horizontal Analysis of Total Costs and Expense (in million, USD)

	2013	2014	2015	2016	2017
Costs of sale	2,025.90	2,158.20	2,100.00	2,181.00	2,437.00
Selling, general and administrative	6597	6985.9	7074	7338	7469
Restricting and other charges	15.1	-2.9	0	133	195
Goodwill impairment	9.6	0	0	0	28
Impairment of other intangible assets	8.1	0	0	0	3
Interest expenses	73.9	50.8	60	71	103
Total expenses	8,729.60	9,192.00	9,234.00	9,723.00	10,235.00

Source: Own calculation

Table 4.10 is the table of Horizontal Analysis of Total Costs and Expense. The figure of Horizontal Analysis of Total Costs and Expense is shown in Figure 4.10.

Figure 4.10 Horizontal Analysis of Total Costs and Expense



Source: Own calculation

From table 4.10 and figure 4.10, we can see almost all content is increasing during

this period, but restricting and other charges became negative in 2014, and the amount of goodwill impairment and impairment of other intangible assets was zero from 2014 to 2016. However, these a little change didn't make any difference in the increase in total expense.

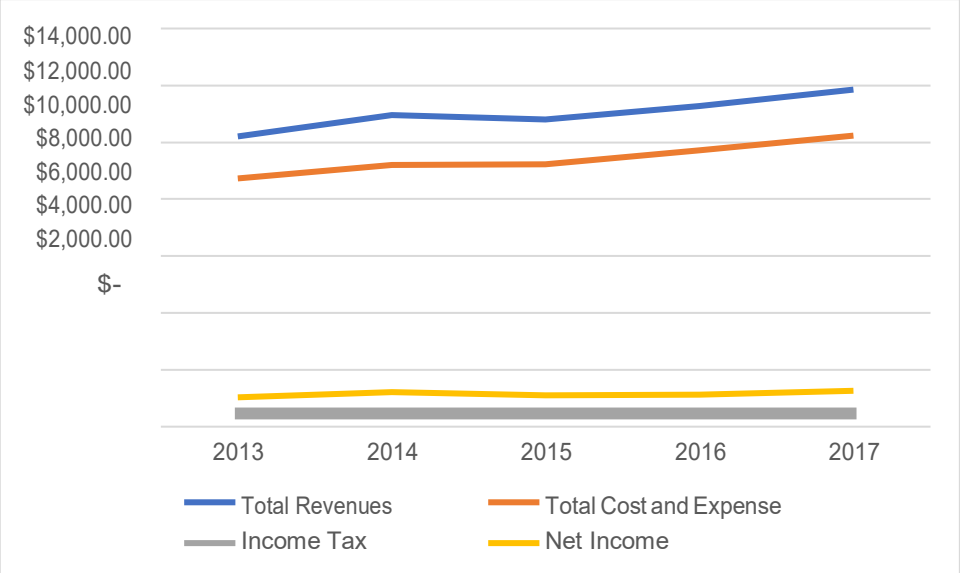
Table 4.11 Horizontal Analysis of the income statement (in million, USD)

	2013	2014	2015	2016	2017
Total Revenues	10,204.80	10,968.80	10,795.00	11,278.00	11,852.00
Total Cost and Expense	8,729.60	9,192.00	9,234.00	9,723.00	10,235.00
Income Tax	451.40	567.60	467.00	434.00	361.00
Net Income	1,023.80	1,209.20	1,094.00	1,121.00	1,256.00

Source: Own calculation

Table 4.11 is the table of Horizontal Analysis of the income statement. The figure of Horizontal Analysis of the income statement is shown in Figure 4.11.

Figure 4.11 Horizontal Analysis of the income statement



Source: Own calculation

From table 4.11 and figure 4.11, we can see that total costs and expenses, net income is increasing during this period. The line of total revenues shows an upward trend, but it decreased in 2014. The weirdest thing is income tax is decreasing from 2015.

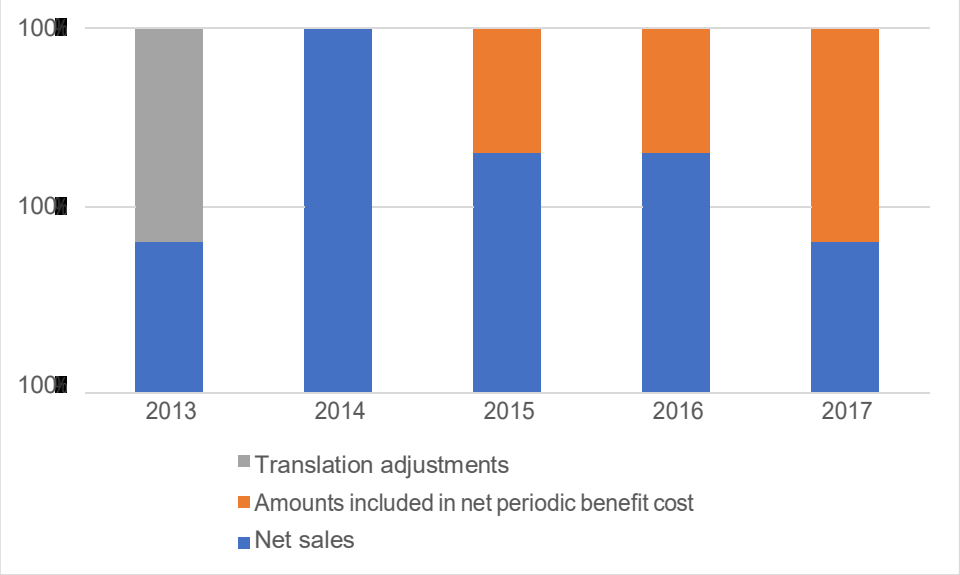
Table 4.12 Vertical Analysis of Total Revenue (in percentage)

	2013	2014	2015	2016	2017
Net sales	99.77%	100.00%	99.86%	99.86%	99.76%
Amounts included in net periodic benefit cost	0.00%	0.00%	0.14%	0.14%	0.24%
Translation adjustments	0.23%	0.00%	0.00%	0.00%	0.00%
Total revenue	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.12 is the table of Vertical Analysis of Total Revenue. The figure of Vertical Analysis of Total Revenue is shown in Figure 4.12.

Figure 4.12 Vertical Analysis of Total Revenue



Source: Own calculation

From table 4.12 and figure 4.12, we can see the structure of total revenue is continuously changing. In 2013 translation adjustments takes a big proportion, but it disappeared from 2014. In 2014 net sales took the whole proportion of total revenue. From 2015, the amount included in net periodic benefit cost appeared, and it took a bigger and bigger proportion of total revenue, which made the proportion of net sales decrease.

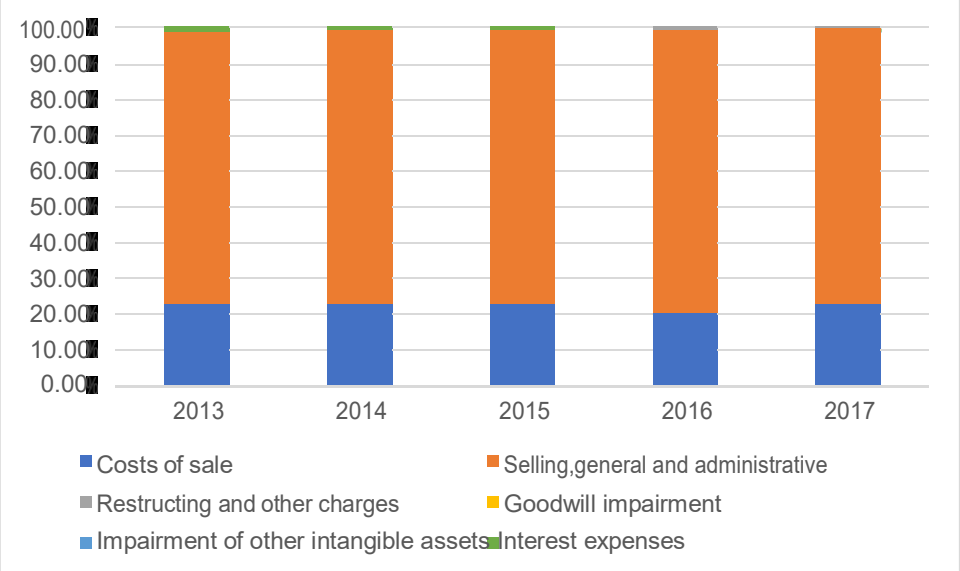
Table 4.13 Vertical Analysis of Total Costs and Expense (in percentage)

	2013	2014	2015	2016	2017
Costs of sale	23.21%	23.48%	22.74%	22.43%	23.81%
Selling, general and administrative	75.57%	76.00%	76.61%	75.47%	72.98%
Restricting and other charges	0.17%	-0.03%	0.00%	1.37%	1.91%
Goodwill impairment	0.11%	0.00%	0.00%	0.00%	0.27%
Impairment of other intangible assets	0.09%	0.00%	0.00%	0.00%	0.03%
Interest expenses	0.85%	0.55%	0.65%	0.73%	1.01%
Total costs and expenses	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own calculation

Table 4.13 is the table of Vertical Analysis of Total Costs and Expense. The figure of Vertical Analysis of Total Costs and Expense is shown in Figure 4.13.

Figure 4.13 Vertical Analysis of Total Costs and Expense



Source: Own calculation

From figure 4.13, we can see that selling, general and administrative cost took the

biggest proportion of total costs and expenses. Costs of sale took a secondary biggest proportion of total costs and expenses. Because of these two big proportion, the left content took a little proportion. The left contents are increasing their proportion during these years, but goodwill impairment and impairment of other intangible assets took no proportion from 2014 to 2016.

4.2 Financial ratio analysis

Financial ratios are some measuring tools to analyze the financial situation of a company. Profitability ratios can measure the profitability power of a company, liquidity ratios can measure a company's ability to meet the short-term liabilities and obligations, leverage ratios can measure the ability to meet the long-term liabilities and obligations, and activity ratios can measure how the company uses its assets.

4.2.1 Profitability ratios

Profitability ratios show the profitability of a company, usually the high the profitability ratios, the better competition. of the company. And we can see the result of profitability ratios in Table 4.14 and see the change trends in Figure 4.14.

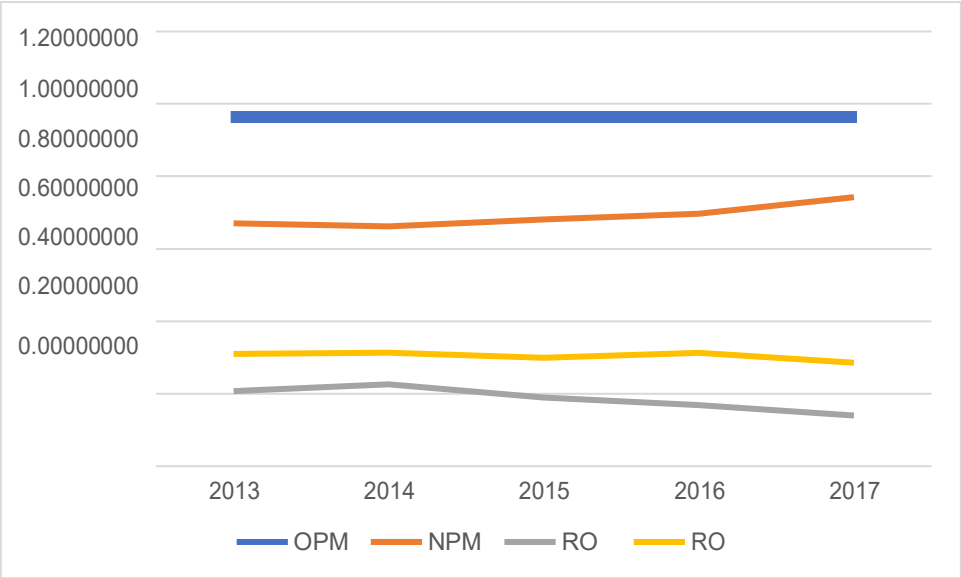
Table 4.14 profitability ratio

	Formula	2013	2014	2015	2016	2017
OPM	(2.8)	0.967	0.972	0.972	0.966	0.956
NPM	(2.9)	0.671	0.662	0.681	0.696	0.742
ROA	(2.10)	0.206	0.226	0.189	0.169	0.140
ROE	(2.11)	0.310	0.312	0.299	0.313	0.285

Source: Own calculation

According to Table 4.14, we can know that the result of these four profitability ratios. The result of OPM is floating in a range of 0.95 to 0.973. The result of NPM firstly decreases in 2014, and then steadily increases. However, the situation of ROA is quite the opposite of NPM, firstly increases in 2014 and then steadily decreased from 2015 to 2017. As for ROE, the situation is similar to OPM is so floating.

Figure 4.14 Profitability Ratios



Source: Own calculation

We can clearly see how these ratios change in Figure 4.14. Because the relative changes in EBIT are only higher than the relative changes in revenue between 2013 and 2014, the OPM is firstly increasing in 2014 and then keeping falling from 2015 to 2017. The result changes in EAT are only lower than the changes in revenue between 2013 to 2014, so the NPM is firstly decreasing in 2014 and then steadily increasing from 2015 to 2017. Because of the relative changes of EBIT are only higher than the relative changes of Assets between 2013 and 2014, inductive reasoning, the ROA is firstly increasing in 2014 and then continuously decreasing from 2015 to 2017. However, the relative changes in EAT are high and low than the relative changes in equity, so the changes of ROE are floating.

4.2.2 Liquidity ratio

Liquidity ratios measure the company's ability to meet the immediate and short-term obligations, we can see the result in Table 4.15 and how the result changes in Figure 4.15.

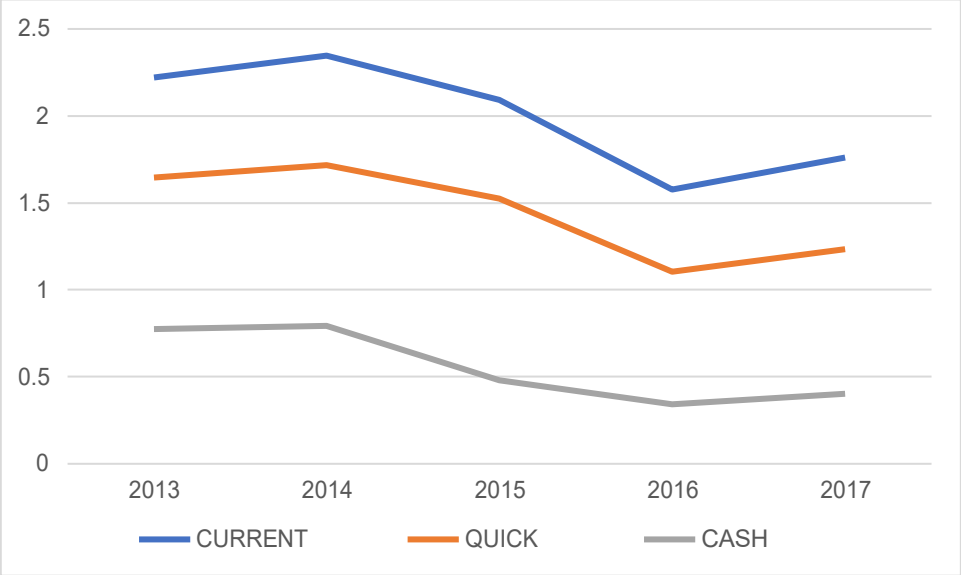
Table 4.15 Liquidity Ratios

	Formula	2013	2014	2015	2016	2017
Current ratio	(2.12)	2.221	2.346	2.092	1.576	1.758
Quick ratio	(2.13)	1.645	1.717	1.523	1.104	1.235
Cash ratio	(2.14)	0.773	0.792	0.478	0.341	0.402

Source: Own calculation

According to table 4.15, we can see that the current ratio, quick ratio, and cash ratio firstly increased in 2014, then decreased from 2014 to 2016, finally in 2017 it increased again. For the current ratio, the maximum value is 2.346088 in 2014 and the minimum value is 1.575905 in 2016. For the quick ratio, the maximum value is 1.716925 and the minimum value is 1.104439. For cash ratio, the maximum value is 0.792094 and the minimum value is 0.340918.

Figure 4.15 Liquidity Ratios



Source: Own calculation

As for why the result of liquidity ratios is like presented in table 4.15. Because from 2014 to 2016, the relative changes of inventory, cash and cash equivalents and the result of current assets minus inventories are negative, however, the relative change of current liabilities are always positive. According to these reasons, we can know why three liquidity ratios gradually decrease from 2014 to 2016 and then increase in 2017.

4.2.3 Solvency ratio

Solvency ratios measure the company's ability to meet its long-term obligations, we can see the result of debt ratio and debt-to-equity ratio in Table 4.16, and the result of interest coverage in Table 4.17, how the result changes in Figure 4.16 and Figure 4.17.

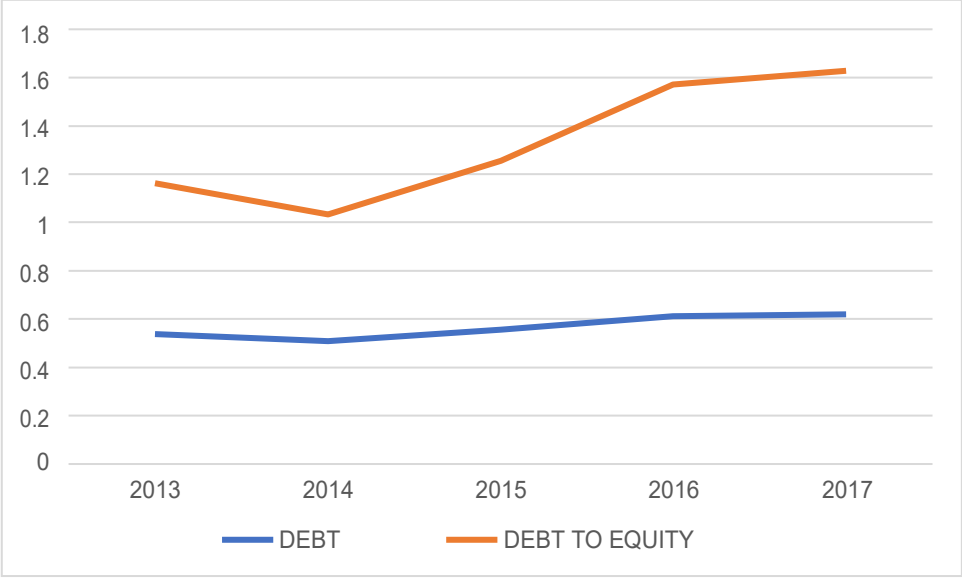
Table 4.16 Debt ratio and debt to equity ratio

	Formula	2013	2014	2015	2016	2017
Debt ratio	(2.15)	53.79%	50.83%	55.65%	61.11%	61.95%
Debt-to-equity ratio	(2.16)	116.40%	103.36%	125.47%	157.12%	162.79%

Source: Own calculation

The situation of debt-to-equity ratio seems like the situation of debt ratio, which firstly decreased in 2014 and then continuously increased from 2015 to 2017. The maximum value of the debt ratio is 0.61947 in 2017 and the minimum value of the debt ratio is 0.50826 in 2014.

Figure 4.16 Debt ratio and Debt-to-equity ratio



Source: Own calculation

Because the relative changes of total debt from 2013 to 2014 is smaller than the relative change of total assets, the debt ratio decreases in 2014. However, since 2014

the relative change of total debt is higher than total assets, so the debt ratio steadily increases. The situation of the debt-to-equity ratio is similar to debt ratio, the relative change of total debt is smaller than the relative change of total equity from 2013 to 2014, since 2014 the relative changes of total debt are always bigger than total equity.

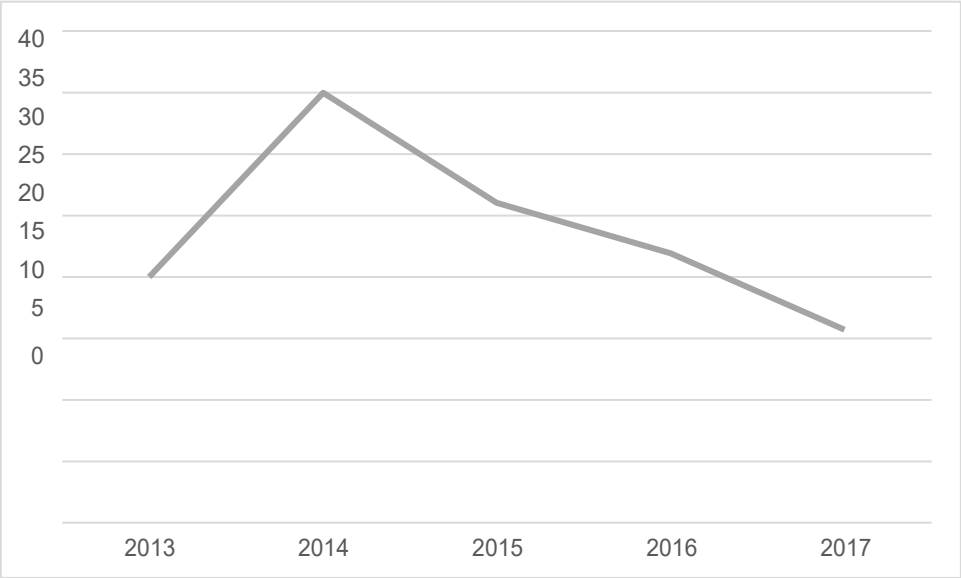
Table 4.17 Interest Coverage

	Formula	**2013**	**2014**	**2015**	**2016**	**2017**
Interest Coverage	(2.17)	19.962	34.976	26.017	21.901	15.699

Source: Own calculation

From figure 4.17, we can see the maximum value of interest coverage is 34.97638 in 2014 and the minimum value of interest coverage is 15.699 in 2017. The situation of interest coverage is the exact opposite of the situation of debt ratio and debt-to-equity ratio, which firstly increased in 2014 then continuously decreased from 2014 to 2017.

Figure 4.17 Interest Coverage



Source: Own calculation

Because the relative change of EBIT is higher than the relative change of interest paid from 2013 to 2014, however since 2014 the relative changes of EBIT are lower than the relative changes of interest paid, the interest coverage is firstly increasing in 2014, then steadily decreases from 2014 to 2017.

4.2.4 Activity ratio

Activity ratios measure the efficiency of assets usage. We can the result of the average collection period in Table 4.18, the result of accounts receivable turnover and inventory turnover in Table 4.19 and the result of total assets turnover in Table 4.20.

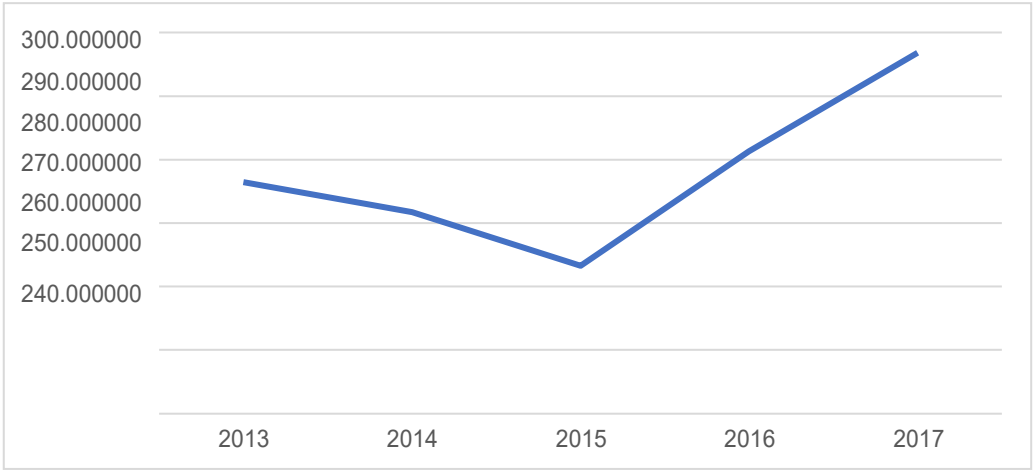
Table 4.18 Average Collection Period (ACP)

	Formula	2013	2014	2015	2016	2017
ACP	（2.18）	41.428	45.269	39.223	40.213	42.473

Source: Own calculation

According to Table 4.18, we can know that the ACP is in the range of 263 to 297, where from 2013 to 2015, the amount of ACP is steadily decreasing, but from 2015 to 2017 the amount is steadily increasing and in 2017 the amount is so close to 300. And the maximum value is 296.808511 in 2017 and the minimum value is 263.275218.

Figure 4.18 average collection period



Source: Own calculation

According to Figure 4.18, we can know that the ACP is smaller and smaller from 2013 to 2015, but is higher and higher from 2015 to 2017. Because the relative changes of accounts receivables are lower than the relative changes in revenue between 2013 and 2014 and between 2014 to 2015, however, the situation is quite opposite from 2015 to 2017.

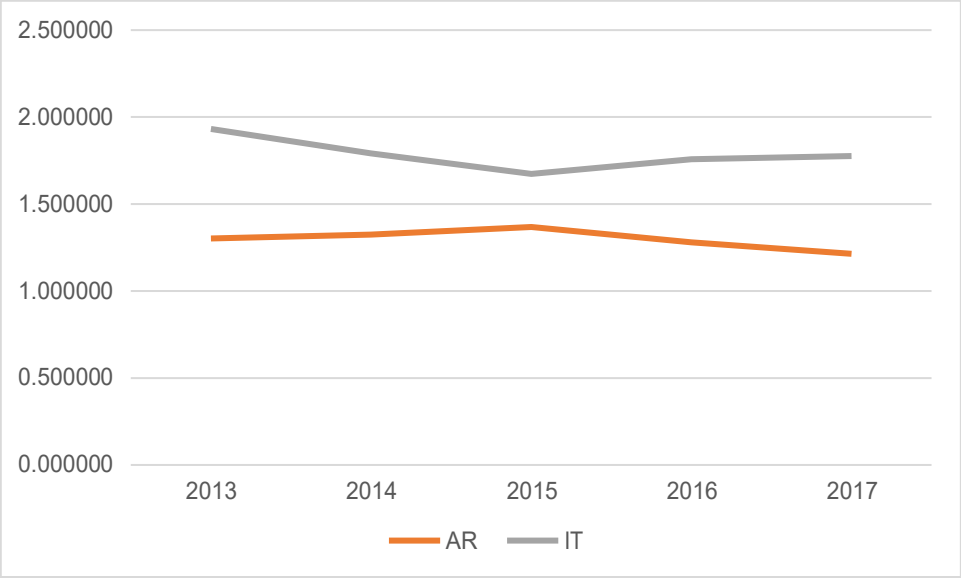
Table 4.19 Accounts Receivable Turnover (ART) and Inventory Turnover (IT)

	Formula	2013	2014	2015	2016	2017
ART	(2.19）	1.302	1.325	1.367	1.28	1.302
IT	(2.20)	1.932	1.793	1.673	1.759	1.932

Source: Own calculation

From Table 4.19, we can know that ART is firstly increasing from 2013 to 2015 and then decreasing from 2015 to 2017. However, IT firstly decreases in 2014, then increases in 2015, next decreases from 2016 to 2017.

Figure 4.19 accounts receivable turnover (ART) and Inventory Turnover (IT)



Source: Own calculation

According to Table 4.19, we can clearly know the changes in ART and IT. Because the relative changes of accounts receivables are higher than the relative changes in revenue between 2013 and 2014 and between 2014 to 2015, however, the situation is quite opposite from 2015 to 2017. That is the reason why ART changes in this form. And the relative changes in costs of goods sold are high and low then the relative changes in average inventory, so the changes in IT are floating.

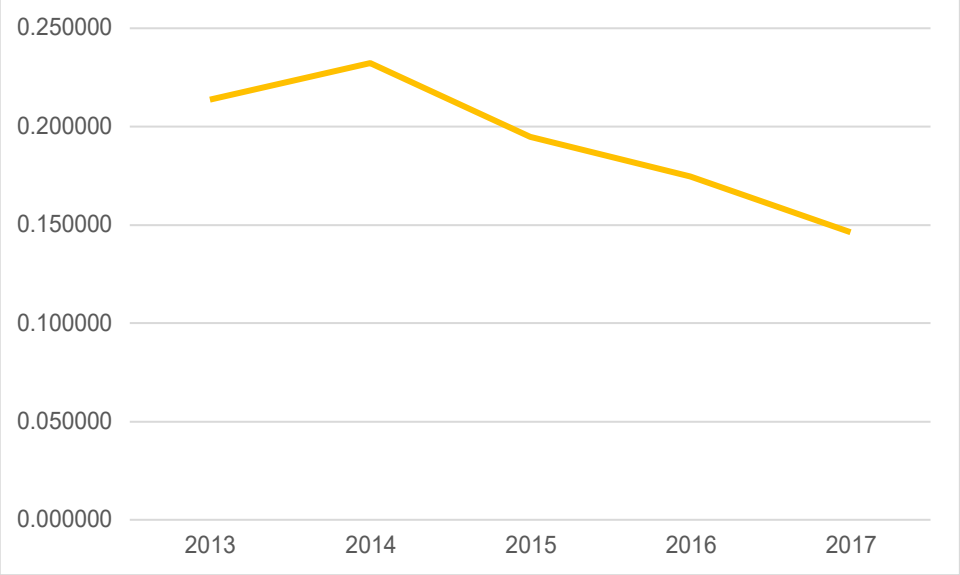
Table 4.20 Total Assets Turnover (TAT)

	Formula	2013	2014	2015	2016	2017
TAT	(2.21)	0.214	0.232	0.195	0.175	0.146

Source: Own calculation

According to Table 4.20, we can know that TAT is firstly increasing in 2014 and then decreasing from 2015 to 2017. And the maximum value is 0.232259 in 2014 and the minimum value is 0.146266 in 2017.

Figure 4.20 Total Assets Turnover (TAT)



Source: Own calculation

Because the relative changes in revenue are only higher than the relative changes of assets between 2013 to 2014. The changes in TAT is like represented in Figure 4.20.

4.3 Dupont Analysis

In this chapter, we will use the Dupont analysis to analyze the financial state of the Estée Lauder Compaines, Inc.. This method is to analyze ROE by three different indicators and to know how these three indicators to influence the ROE. In this chapter, we only use Dupont analysis in the method of gradual change.

Table 4.30 result of the component ratios for Dupont analysis

	2013	2014	2015	2016	2017
ROE(EAT/E)	0.31	0.312477	0.299373	0.312517	0.285325
EAT/REV	0.100553	0.110231	0.101484	0.099538	0.106225
REV/A	1.424971	1.393961	1.308379	1.221078	1.02213
A/E	2.16	2.03	2.25	2.57	2.63

Source: Own calculation

As we know all the ROE from 2013 to 2017, firstly we should calculate the absolute change and index change. Then use the calculation from chapter 2 to calculate.

Table 4.31 absolute change and index change of ROE

	2013	2014	2015	2016	2017
ROE	0.310064	0.312477	0.299373	0.312517	0.285325
absolute change of ROE		0.002413	-0.0131	0.013144	-0.02719
Index of change of ROE		1.007784	0.958064	1.043905	0.912989

Source: Own calculation

In the following calculations, in the vertical items, a_1 is EAT/Rev., a_2 is Rev./A, $a_3$is A/E. In horizontal items, a_0 is the result of former year and a_1 is the result of the next year.Δa is the difference between a_0 and a_1, calculated by $a_1 - a_0$.

Table 4.32 result of 2013-2014 by gradual change

	a_0	a_1	Δa	Δx_{a_i}	order
a_1	0.100553	0.110231	0.009678	0.029843	**1**
a_2	1.424971	1.393961	-0.03101	-0.0074	2
a_3	2.163966	2.033597	-0.13037	-0.02003	3
sum				0.002413	

Source: own calculate

From table 4.32, we can see that the absolute change of ROA is the only positive change. The absolute change in assets turnover is negative. Financial leverage is also negative. This fact reflects that the return on assets has a strong positive influence on

Estée Lauder Compaines, Inc. in 2014. In the same time, the left two ratios have less influence on the company in 2014.

Table 4.33 result of 2014-2015 by gradual change

	a_0	a_1	Δa	Δx_{a_i}	order
a_1	0.110231	0.101484	-0.00875	-0.02479	3
a_2	1.393961	1.308379	-0.08558	-0.01766	2
a_3	2.033597	2.254659	0.221062	0.029353	**1**
sum				-0.0131	

Source: own calculate

From table 4.33, we can know that the absolute change on ROE caused by the assets turnover and NPM are negative which shows that NPM and assets turnover make a negative effect on the company. However, financial leverage is positive, which makes an important influence in 2015.

Table 4.34 result of 2015-2016 by gradual change

	a_0	a_1	Δa	Δx_{a_i}	order
a_1	0.101484	0.099538	-0.00195	-0.00574	2
a_2	1.308379	1.221078	-0.0873	-0.01959	3
a_3	2.254659	2.571229	0.316571	0.038477	**1**
sum				0.013144	

Source: own calculate

From table 4.34, we can see that the absolute changes in return on equity caused by the change of financial leverage, and which makes a decisive role in the company in 2016. Because the NPM and assets turnover makes a negative effect on the company.

Table 4.35 result of 2016-2017 by gradual change

	a_0	a_1	Δa	Δx_{a_i}	order
a_1	0.099538	0.106225	0.006686	0.020993	**1**
a_2	1.221078	1.02213	-0.19895	-0.05434	3
a_3	2.571229	2.627896	0.056667	0.006153	2
sum				-0.02719	

Source: own calculate

From table 4.35, we can know that the absolute changes in return on equity caused by the change in assets turnover. Although NPM and financial leverage have a positive influence on the company, the negative effect of assets turnover is so high. So assets turnover becomes the most influential component.

5 Conclusion

The goal of this bachelor thesis is to evaluate the financial situation of the Estée Lauder Companies, Inc during 2013 – 2017 period.

The content of this article is progressive. The first chapter describes what is financial analysis, and introduces the structure of this thesis. The second chapter is a theoretical part and describes three financial analysis methods: financial statement analysis, common-size analysis, and financial ratio analysis. The third chapter introduces the main information of Estée Lauder Companies, Inc. In Chapter 4, we used the methods declared in Chapter 2 to conduct a financial analysis of Estée Lauder Companies, Inc.

According to the result of chapter 4, we can know that Estée Lauder's asset structure has been optimized. Obviously, the amount of cash and cash equivalent is decreasing over the years, short-term investment and goodwill are gradually increasing over the years. Besides that, the proportion of inventory and account receivables are steadily increasing. The biggest change is the proportion of non-current assets is higher than the proportion of current assets.

Due to the acquisitions and merges, the net sale of Estée Lauder Companies, Inc.is continuously rising. Although in 2016 a lot of cosmetics companies decreased their net sale than 2015, Estée Lauder's net sale was still increasing. And finally, in 2018, Estée Lauder Companies, Inc. defeated Procter & Gamble as the second largest cosmetics company in the market. Otherwise, the average net sale growth of Estée Lauder Companies, Inc. is more than the Global Prestige Beauty and Consumer Staples from 2011 to 2016.

In 2014, Estée Lauder Companies, Inc. achieved record results on a number of indicators, including sales, operating margins, earnings per share and operating cash flow. Despite slowing industry growth in some major countries, its revenue growth is almost twice as high as prestige, and it has a broad base in product categories and

channels across regions. After adjusting for the accelerated sales orders, it reported in 2014, it achieved a 7% constant money sales growth. Despite the considerable macroeconomic headwinds and challenges, it has once again achieved strong results. Outstanding performance has led to double-digit growth in sales for most of their cosmetics and luxury brands, as well as online, professional and independent store channels. In 2016, in the context of social and political instability, currency fluctuations and economic challenges. Estée Lauder makes the most of consumer preferences by taking advantage of makeup and positioning the company to win luxury perfumes. The flexible allocation of resources and strategic investments in emerging markets, cosmetics categories, and online and professional multi-channel retail channels have resulted in impressive results. In 2018, almost all brands' sales have climbed, and Estée Lauder achieved a milestone. Among the four brands, the Estée Lauder brand has achieved new sales globally and grew by 22% in constant currency. La Mer has become the fourth brand in their portfolio to contribute $1 billion.

According to the annual report of Estée Lauder Companies, Inc., we can know that the Americans take the biggest proportion of net sales and skincare product takes the biggest proportion of net sales. However, in 2017, makeup takes the biggest proportion of net sales of Estée Lauder Companies, Inc. For Estée Lauder Companies, it should expand business in the Asia Pacific region. Because for the other companies in the cosmetics industry, an important market is in the Asia Pacific region. In other ways, Estée Lauder lacks the product like LA ROCHE-POSAY and Vicky of L'Oréal and the brand of hair product.

Estée Lauder's prospect is to continue to create products that attract a more diverse and growing middle class in the world in FY 2019, and continue to achieve industry-leading sales and dual sales. Digital earnings per share increased. With a successful strategy, multiple growth engines focused on products, geography, channels and demographics, it is expected that FY 2019 will once again gain a global share.

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Lists of Abbreviations

A - Asset

ACP - Average collection period

ART - Accounts receivable turnover

EAT- Earning after tax

EBIT- Earnings before Interest and tax

FY- Fiscal Year

Inc.- incorporated

IT - Inventory turnover

NPM- Net Profit Margin

OPM - Operating profit margin

OPM- Operate profit margin

P&G- Procter & Gamble Company

Rev.- Revenue

ROA- Return on Assets

ROE- Return on Equity

TAT - Total assets turnover

Declaration of Utilisation of Results from the Bachelor Thesis

Herewith I declare that

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Ostrava dated 10. May 2019

刘毅 Yi Liu

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Yi Liu

Lists of Annexes

Annex 1 Balance Sheet of Estée Lauder Companies, Inc.

$ in billions					
ASSETS	2013	2014	2015	2016	2017
Current assets					
Cash and cash equivalents	1495.7	1629.1	1021.4	914	1136
Short-term investments			503.7	469	605
Accounts receivable, net	1171.7	1379.3	1174.5	1258	1395
Inventory and promotional merchandise, net	1113.9	1294	1215.8	1264	1479
Prepaid expenses and other current assets	515.9	522.8	553.1	320	349
Total current assets	4297.2	4825.2	4468.5	4225	4964
Property, Plant and Equipment, net	1350.7	1502.6	1490.2	1583	1671
Other Asset					
Long-term investments		13.6	420.3	1108	1026
Goodwill	881.5	839.2	1144.8	1228	1916
Other intangible assets, net	169.6	157.3	326.6	344	1327
Other assets	446.2	476.9	388.8	735	664
Total other assets	1497.3	1541	2280.5	3415	4933
Total assets	7145.2	7868.8	8239.2	9223	11568
LIABILITIES AND EQUITY					
Current Liabilities					
Current debt	18.3	18.4	29.8	332	189
Accounts payable	481.7	524.5	625.4	717	835
Accrued income tax	81.3				
Other accrued liabilities	1353.3	1513.8	1470.4	1632	1799
Total current liabilities	1934.6	2056.7	2135.6	2681	2823
Noncurrent Liabilities					
Long-term debt	1326	1324.7	1607.5	1910	3383
Other noncurrent liabilities	80.6	618	841.8	1045	960
Total non-current liabilities	502.1	1942.7	2449.3	2955	4343
Commitments and Contingencies					
Equity					
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at June 30, 2017 and June 30, 2016; 30, 2016;					
Class B shares authorized: 304,000,000 at June 30, 2017 and June 30, 2016; shares issued and outstanding: 143,762,288 at June					
shares issued: 429,968,260 at June 30, 2017 and 424,109,008 at June					
	5.6	5.6	5.7	6	6
Paid-in capital	2289.9	2562.7	2871.6	3161	3559
Retained earnings	5364.1	6265.8	7004.1	7693	8425
Accumulated other comprehensive loss	-157.5	-100.3	-381.5	-545	-484
	7502.1	8733.8	9499.9	10315	11533
Less: Treasury stock, at cost; 205,627,082 Class A shares					
at June 30, 2017 and 201,119,435 Class A shares at June 30, 2016	-4215.2	-4878.9	-5856.7	-6743	-7149
Total stockholders' equity – The Estée Lauder Companies Inc.	3286.9	3854.9	3643.2	3572	4384
Noncontrolling interests	15	14.5	11.1	15	18
Total equity	3301.9	3869.4	3654.3	3587	4402
Total liabilities and equity	7145.2	7868.8	8239.2	9223	11568

Annex 2 Income Statement of Estée Lauder Companies, Inc.

	2013	2014	2015	2016	2017
in millions, expect per share data					
Net sales	$ 10,181.70	$ 10,968.80	$ 10,780.00	$ 11,262.00	$ 11,824.00
costs of sale	2,025.90	2,158.20	2,100.00	2,181.00	2,437.00
Gross profit	8,155.80	8,810.60	8,680.00	9,081.00	9,387.00
operating expenses					
selling, general and administrative	6,597.00	6,985.90	7,074.00	7,338.00	7,469.00
restricting and other charges	15.10	-2.90		133.00	195.00
goodwill impairment	9.60				28.00
impairment of other intangible assets	8.10				3.00
total operating expenses	6,629.80	6,983.00	7,074.00	7,471.00	7,695.00
operating income	1,526.00	1,827.60	1,606.00	1,610.00	1,692.00
interest expenses	73.9	50.80	60.00	71.00	103.00
interest income and investment income, net			15.00	16.00	28.00
other income	23.10				
Earnings before income taxes	1,475.20	1,776.80	1,561.00	1,555.00	1,617.00
provision for income taxes	451.40	567.60	467.00	434.00	361.00
Net earnings	1,023.80	1,209.10	1,094.00	1,121.00	1,256.00
Net earnings attributable to noncontrolling interests	-4.00	-5.00	-5.00	-6.00	-7.00
net earnings attiributable to The Estee Lauder companies Inc.	$ 1,019.80	$ 1,204.10	$ 1,089.00	$ 1,115.00	$ 1,249.00
net earnings attiributable to The Estee Lauder companies Inc. per common share					
basic	$ 2.63	$ 3.12	$ 2.87	$ 3.01	$ 3.40
diluted	$ 2.58	$ 3.06	$ 2.82	$ 2.96	$ 3.35
weighted-average common share outstanding					
basic	387.60	386.20	379.30	370.00	367.10
diluted	394.90	393.10	285.70	576.00	373.00
cash dividends declared per common share	$ 1.08	$ 0.78	$ 0.92	$ 1.14	$ 1.32

Annex 3 Cash-flow Statement of Estée Lauder Companies, Inc.

(in millions)	2013	2014	2015	2016	2017
Cash flows from operating activities					
Net earnings	$ 1,023.8	$ 1,209.1	$ 1,094.0	$ 1,121.0	$ 1,256.0
Adjustments to reconcile net earnings to net cash flows from operating activities:					
Depreciation and amortization	336.90	384.60	409.00	415.00	464.00
Deferred income taxes	(76.10)	(56.40)	(53.00)	(94.00)	(118.00)
Non-cash stock-based compensation	145.80	152.60	165.00	184.00	219.00
Excess tax benefit from stock-based compensation arrangements	(53.90)	(40.20)	(48.00)	(23.00)	(45.00)
Loss on disposal of property, plant and equipment	15.20	13.40	15.00	17.00	5.00
Goodwill and other intangible asset impairments	17.70				31.00
Non-cash restructuring and other charges	3.50			19.00	3.00
Pension and post-requirement benefit expense	83.10	70.90	64.00	71.00	80.00
Pension and post-requirement benefit contributions	(38.30)	(41.30)	(59.00)	(67.00)	(38.00)
Charges in fair value of contingent consideration			7.00	8.00	(57.00)
Loss on Venezuela remeasurement	2.80	38.30			
Other non-cash items	(25.90)	(0.50)		7.00	(21.00)
Changes in operating assets and liabilities:					
Decrease(increase) in accounts receivable, net	(113.00)	(196.20)	103.00	(101.00)	(92.00)
Increase in inventory and promotional merchandise, net	(134.50)	(156.80)	(26.00)	(69.00)	(85.00)
Decrease(increase) in other assets, net	(3.20)	(45.20)	8.00	(72.00)	(80.00)
Increase in accounts payable	(8.70)	34.00	147.00	101.00	54.00
Increase in other accrued and noncurrent liabilities	51.10	168.90	117.00	286.00	224.00
Net cash flows provided by operating activities	1226.30	1353.20	1943.00	1789.00	1800.00
Cash flows from investing activities					
Capital expenditures	(461.00)	(510.20)	(473.00)	(525.00)	(504.00)
Payments for acquired businesses, net of cash acquired	(8.70)	(9.20)	(241.00)	(101.00)	(1681.00)
Proceeds from the disposition of investments	7.00	8.40	305.00	1373.00	1226.00
Purchases of investments	(2.80)	(0.60)	(1207.00)	(2016.00)	(1267.00)
Proceeds from sale of property, plant and equipment					12.00
Net cash flows used for investing activities	(465.50)	(511.60)	(1616.00)	(1269.00)	(2214.00)
Cash flows from financing activities					
Proceeds of current debt, net	(198.50)	5.10	13.00		165.00
Proceeds from issuance of long-term debt, net	498.70		294.00	616.00	1498.00
Debt issuance costs	(4.10)		(4.00)	(4.00)	(11.00)
Repayments and redemptions of long-term debt	(241.50)	(11.80)	(8.00)	(8.00)	(306.00)
Net proceeds from stock-based compensation transactions	91.10	84.80	101.00	85.00	141.00
Excess tax benefit from stock-based compensation arrangements	53.90	40.20	48.00	23.00	45.00
Payments to acquire treasury stock	(387.70)	(667.20)	(983.00)	(890.00)	(413.00)
Dividends paid to stockholders	(419.20)	(301.80)	(350.00)	(423.00)	(486.00)
Payments to noncontrolling interest holders for dividends	(4.20)	(6.20)	(6.00)	(4.00)	(3.00)
Net cash flows provided by (used for) financing activities	(611.50)	(856.90)	(895.00)	(605.00)	630.00
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1.30)	(33.30)	(40.00)	(22.00)	6.00
Net Increase (Decrease) in Cash and Cash Equivalents	148.00	133.40	(608.00)	(107.00)	222.00
Cash and Cash Equivalents at Beginning of Year	1347.70	1495.70	1629.00	1021.00	914.00
Cash and Cash Equivalents at End of Year	$ 1,495.7	$ 1,629.1	$ 1,021.0	$ 914.0	$ 1,136.0